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In the Supreme Court of the United States

347 U.S.
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OCTOBER TERM, 1953

No. 623

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE & FILM CORPORATION,
Respondent.

Petition for the Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit and Supporting Brief

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In the Supreme Court of the United States

OCTOBER TERM, 1953

No. .....

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE & FILM CORPORATION,
Respondent.

Petition for the Writ of Certiorari and Supporting Brief

Petitioner prays that the writ of certiorari be issued to review a judgment entered by the United States Court of Appeals for the Seventh Circuit on October 21, 1953.

OPINIONS BELOW

The draft report of the special master (R. 820-844) and his supplemental report (R. 863-871) are not reported. The opinion of the District Court (R. 894-925) is reported in

107 F. Supp. 326. The opinions of the Court of Appeals (R. 952-968 and 969-978) are reported in 207 F.(2d) 912. 970-979

JURISDICTION

The Court of Appeals entered its judgment on October 21, 1953 (R. 952). A petition for rehearing was filed on November 5, 1953 (R. 968), and was denied on December 7, 1953 (R. 978). Jurisdiction of this Court is invoked under U. S. Code, Title 28, Section 1254(1).

STATEMENT OF THE CASE

The case involves certain trade secrets owned by petitioner. Petitioner authorized a licensee, Ferroline Corporation of California, to use its secret processes under a royalty agreement. Two agents of the licensee, without authority from petitioner, disclosed and sold the processes to respondent. Respondent then used the processes without consent of petitioner. Petitioner seeks injunctive relief and an accounting (R. 4-35).

On July 17, 1951 (R. 819), the master filed his draft report (R. 820-844) recommending that the District Court "enter a decree finding the equities with the plaintiff and ordering defendant to account" (R. 844). On review, the District Court examined the matter *de novo* and held that "substantially all of defendant's objections to the master's report must be sustained" (R. 925). On further review the Court of Appeals also examined the cause *de novo* and took a third view of the evidence (R. 952-968) quite unlike that of either the master or the trial court, but still concluding that the master was wrong and the District Court was right (R. 968). Upon denial of rehearing, the Court of Appeals handed down a lengthy opinion presenting further views of the facts and applicable law (R. 969-978). 970-979

Petitioner is the owner of the secret processes used by respondent

On the basic issues, the Court of Appeals agreed with the findings of the master. The Court of Appeals found that the petitioner expended "many months and much labor * * * in developing a successful carbonyl[1] process involving complicated chemical and mechanical problems" (R. 961-962); that "the process as a whole was the product of plaintiff's efforts, differing materially from any methods taught in the prior art" (R. 962); that "secrecy was maintained" (R. 963); and that petitioner "possesses an enforceable right and interest in its process" (R. 963).

Petitioner permitted Ferroline Corporation of California to use its process under a royalty agreement

On February 12, 1938, petitioner and one R. T. Hamilton, a conduit to Ferroline Corporation of California, entered into an agreement[2] licensing Hamilton "to use" the process in dispute as well as certain other properties[3] upon pay-

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1. Carbonyl is more specifically known as iron penta carbonyl. It is a yellowish, oily liquid having a diverse utility. At present, the most common use is in the manufacture of finely powdered iron.

2. This agreement (Plaintiff's Exhibit 9, Plaintiff's Book of Exhibits, pages 21-46) superseded an earlier agreement of January 4, 1938 (Plaintiff's Exhibit 7, Plaintiff's Book of Exhibits, pages 1-20) and was assigned to Ferroline Corporation of California on March 28, 1938 (Plaintiff's Exhibit 13, Plaintiff's Book of Exhibits, page 53).

3. "* * * for and in consideration of * * * the obligation to keep and perform each and every stipulation herein contained as well as the payment of the deferred consideration herein provided for, Ferroline does hereby license the said Hamilton to use all of the rights, interests, information, data, secret processes, formulae, as well as all other rights obtained by Ferroline from and under William H. Johnsen, as well as all information, data, discoveries, improvements, made, had or ascertained by Ferroline in its experiments, exploitation and perfecting the process of manufacturing Iron Penta Carbonyl under the said contract and otherwise." (Plaintiff's Exhibit 9, Plaintiff's Book of Exhibits, page 22).

ment of $1.50 per gallon upon all carbonyl produced.[4] This agreement gave Hamilton no title to the licensed property, although it did give him and his corporation the limited privilege "to assign or sell its rights under this contract," but only "subject to the rights and privileges of Ferroline" and upon due notice.[5]

Under this arrangement, petitioner furnished its licensee "with flow sheets and other technical data disclosing the details of construction and operation of its Shreveport plant" (R. 957); petitioner "sent two of its employees to California to give technical assistance and advice in constructing and putting into operation" the new factory (R. 957); and petitioner "thoroughly briefed" Given, chief engineer of Ferroline Corporation of California, "on all phases of plaintiff's carbonyl operations" (R. 957).

In construing this contract, the District Court and the Court of Appeals both thought that the words "secret processes" in the granting clause pertained to a certain contract with one William H. Johnsen (R. 963) and not to the "secret processes" in suit.

In so doing, both courts overlooked that the Johnsen contract (Plaintiff's Book of Exhibits, pages 32-41) related to a "compound" and not to "secret processes."[6] The only

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4. "Hamilton agrees that upon the production of Iron Penta Carbonyl to pay to Ferroline One Dollar and Fifty Cents ($1.50) per standard gallon upon all such product produced, in consideration of the information, rights, data and services and other obligations herein assumed, performed, or delivered or to be assumed or performed and delivered in the future." (Plaintiff's Exhibit 9, Plaintiff's Book of Exhibits, page 24).

5. "16. Hamilton, or the corporation so to be formed, shall have the right at any time to assign or sell its rights under this contract, * * * subject to the rights and privileges of Ferroline hereunder, provided, however, that before any such sale is made Ferroline shall be advised in writing at least thirty days prior to the effective date of said sale * * *." (Plaintiff's Exhibit 9, Plaintiff's Book of Exhibits, page 27.)

6. The parties and the master agreed that Johnsen had no "process" for producing carbonyl and that Johnsen "transferred no process and no rights to any process" (R. 845, 848, 864, 865).

"secret processes" existing in this record are those involved in this action.

Both courts overlooked that the granting clause begins with the collective words "all of" and ends with the collective words "and otherwise."

Both courts overlooked that as a matter of straight grammatical construction the word "formulae" separates the words "secret processes" from the reference to the Johnsen contract.

Both courts overlooked another contract annexed to and made a part of the license which did in fact relate to "processes." This contract with one Bradley Murray (Plaintiff's Book of Exhibits, pages 44-46), pertained to "any plant" constructed by petitioner and its "associates or assigns, for the production of carbonyl"[7] and specifically prohibited any "competitive" disclosures whatsoever[8] by petitioner and its "associates or assigns."

And finally both Courts overlooked the construction which the parties themselves placed upon the contract. Knox, a former vice-president of petitioner, testified that he had told Given "many times" that Given was to maintain secrecy of whatever was disclosed (R. 255). Given testified that all employees were "warned not to discuss with anyone what

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7. "• • • the construction, reconstruction, remodeling or improving of your present plant and any plant or plants that may be hereafter constructed, remodeled, reconstructed, or improved by you, your associates or assigns, for the production of iron carbonyl, in the city of Shreveport, Louisiana, or any other location in the United States, Canada, or Mexico • • •". (Plaintiff's Book of Exhibits, page 44).

8. "(8) To the best of your ability you, your associates, or assigns, shall undertake that no facts, processes, or scientific information disclosed to you, your associates or assigns, under the terms hereof shall ever be communicated to any other person, firm or corporation so as to become competitive in any respect, for which you agree to assume full responsibility." (Plaintiff's Book of Exhibits, page 45.)

they had learned as operators at the plant" (R. 83), that "they were told that it was a secret process" (R. 84) and that no disclosures had been made to others until the disclosures hereinafter referred to which Given made to Angermueller (R. 116), the chief engineer for respondent.

After examining the foregoing and other evidence, the master found that "Messrs. Hamilton and Given who were associated with plaintiff's licensee, Ferroline Corporation of California" (R. 831), "were in confidential relationships to plaintiff" (R. 832).

Given disclosed the trade secrets and Birbeck sold them to respondent without authority

In May of 1940, two of respondent's officers, one Dr. Aickelin and one Vom Rath visited with Birbeck, the president of Ferroline Corporation of California and with Given at Los Angeles. Given conducted the party through the plant (R. 58). Dr. Aickelin asked Given where they got the plant (R. 59, 85, 108) and Given responded "We had gotten this plant from Ferroline of Louisiana" (R. 58, cf. R. 85-86, 108). The party then went to the office (R. 277) and Dr. Aickelin stated to Birbeck that Ferroline Corporation of California "had no right to make carbonyl" (R. 278, cf. R. 291). Mr. Birbeck responded "We had paid good money to the Ferroline Corporation of Shreveport for the privilege of making this carbonyl" and that "We were under obligation to them and we were going to make it" (R. 278, cf. R. 292).

Upon his return to New York, Dr. Aickelin told Angermueller "I have no idea how it works in detail" (R. 125) and instructed Angermueller to "get the information, full information as to how that equipment operates" (R. 175).

In June of 1940, Angermueller went to Los Angeles and there met with Birbeck and Given. While Angermueller was in Los Angeles, Birbeck purchased the physical assets of Ferroline Corporation of California at a bankruptcy sale. Mr. Birbeck then sold some of said assets to the respondent (R. 824, Plaintiff's Exhibit 17, Plaintiff's Book of Exhibits, page 104).

At the same time Given disclosed to Angermueller "everything" about the plant and process (R. 833) "explained the details of the Ferroline process" (R. 958) and supplied "complete information" relative to the process (R. 958). Respondent "purchased" from Birbeck the "information" (Answer, Par. 37, R. 41) or "operating data" (R. 958) relating to the operation of the plant. Petitioner did not authorize either the disclosure or the "sale" of such information or operating data.

Given testified that in response to certain inquiries made by Angermueller, he mentioned "Ferroline Company of Louisiana" (R. 90, cf. R. 106), stating that "they manufactured iron penta carbonyl" (R. 91, cf. R. 105). Given also mentioned that he "obtained the information relating to the manufacture of iron penta carbonyl through the Ferroline of Louisiana" (R. 91) and "that they were in Shreveport" (R. 106).

Upon the foregoing and other evidence, the master found that "defendant acquired part of the California plant and plaintiff's process with actual knowledge of plaintiff's rights" (R. 834).

Respondent uses petitioner's secrets

Following this unauthorized disclosure, respondent erected and put into operation a carbonyl plant at Grasselli, New Jersey. The Court of Appeals stated "the record contains conclusive proof that defendant makes use of many

elements of plaintiff's process at its Grasselli plant" (R. 967).

Petitioner brought suit as soon as it learned of fraud

After Birbeck closed the sale to respondent, he sent petitioner a letter on July 10, 1940, advising that "our assets were sold under bankruptcy proceedings on June 18th and the property acquired by the General Aniline Works of New York. * * * It is their intention, I am informed, to use such of our equipment as they can fit into their plans, * * *" (Defendant's Exhibit 21, Plaintiff's Book of Exhibits, page 152).

Later, on January 27, 1941, Birbeck advised petitioner "that the physical assets of the plant were sold under bankruptcy proceedings and later acquired by the General Aniline Works. The General Aniline crowd know how to make carbonyl and always did * * *." (Defendant's Exhibit 24, Plaintiff's Book of Exhibits, page 156).

These letters contain no suggestions that Given had disclosed any information to respondent, or that Birbeck had sold any information to respondent. On the contrary, the imperfect reference to "our assets," "the physical assets" and "their plans" would lead any normal mind to believe that the case were otherwise.

Then in July or August of 1945, one Carl MacBroom spied upon respondent's plant[9] and reported to petitioner that respondent was using "our process for making liquid iron carbonyl" (R. 312). Petitioner immediately instructed its attorneys to bring suit (R. 312). Promptly thereafter this action was commenced on September 5, 1945 (R. 4).

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9. The plant was operated in secrecy (Respondent's Answer, Paragraph 25, R. 38).

The master found the fact to be that the defenses of *laches* and acquiesence are not valid (R. 842). He reviewed respondent's suggestions 87-95 (R. 857-858) and concluded that "These suggestions are contrary to the evidence and the law, and are not accepted" (R. 870).

The Court of Appeals refused relief to petitioner upon three separate bases

The Court of Appeals fully recognized that petitioner possesses an enforcible right and interest in its process (R. 963) and that the record contains conclusive proof that respondent makes use of many elements of petitioner's process at its Grasselli plant (R. 967), but refused to grant the petitioner relief because:

(1) There was no confidential relationship between petitioner and Ferroline Corporation of California (Points (3) and (4) of opinion, R. 963-964);

(2) Respondent had no knowledge of petitioner's rights (Point (5) of opinion, R. 964-967); and

(3) Petitioner's claim is barred by *laches* (Opinion, R. 967-968).

QUESTIONS PRESENTED and SPECIFICATION OF ERRORS TO BE URGED

The questions presented are whether the Court of Appeals erred in the following respects:

(1) In reviewing the evidence *de novo,* in disregarding the findings of the master on factual issues, and in drawing its own conclusions as to the credibility of witnesses, as to the inferences to be drawn from the evidence, and as to the weight of the evidence.

(2) In concluding that the disclosure by petitioner to Ferroline Corporation of California was not a confidential

disclosure and that the subsequent unauthorized disclosure of petitioner's process to respondent was not in breach of confidence;

(3) In relieving respondent of liability for its unauthorized use of petitioner's secrets;

(4) In concluding that petitioner's action is barred by *laches;* and

(5) In affirming the judgment of the District Court.

The foregoing points are all specified as errors to be urged if the writ be granted.

REASONS FOR GRANTING THE WRIT

On the procedural issues

(1) In drawing its own conclusions as to the credibility of witnesses and in drawing its own inferences from the record as a whole, the decision of the Court of Appeals is in direct conflict with Rule 53(e)(2) of the Federal Rules of Civil Procedure and with applicable decisions of this Court governing the scope of review upon facts found by a master (developed in the argument, pages 11 to 16).

On the legal issues

(2) In deciding each of the three legal issues, the decision of the Court of Appeals is in direct conflict with U. S. Code, Title 28, Section 1652, with interpretive decisions of this Court commencing with *Erie Railroad Co. v. Tompkins* (1938) 304 U.S. 64, and with controlling state law (developed in the argument, pages 16 to 23).

On general philosophy

(3) In deciding the entire case, the decision of the Court of Appeals is in direct conflict with the prevailing philosophy inherent in most courts consistently enforcing high standards of commercial morality (developed in the Argument, pages 23 to 25).

ARGUMENT

It is submitted that the result of this case came from a failure of the Court of Appeals to follow the mandates of:

(a) Rule 53(e)(2) requiring reviewing courts to accept a master's findings unless "clearly erroneous" and

(b) U. S. Code, Title 28, Section 1652, requiring the federal courts to follow state laws in cases where they are applicable, rather than to adopt their own views.

Failure to follow these mandates would appear to present grounds for review within the boundaries defined in Rule 38 of the Rules of this Court.

(1) The failure to follow Rule 53(e)(2) and applicable decisions of this Court warrants the grant of the writ.

The master gave this case special care. He commenced to take the evidence on October 21, 1946 (R. 43). On July 17, 1951, he filed his draft report (R. 820-844) recommending that the District Court enter a decree finding the equities with petitioner and ordering respondent to account (R. 844).

During this span of more than 4½ years, the master heard and saw 17 witnesses testify in person, heard read to him the testimony of 2 more witnesses whose depositions were taken by respondent (R. 45-819), examined more than 100 different exhibits introduced by both parties (R. 873) and reviewed 2108 pages of typed transcript (R. 873). The mere taking of evidence occupied the better part of 17 separate trial days (R. 45-802).

Upon completion of the hearings, the master studied briefs filed by counsel for the parties, heard two full days of oral argument, undertook and carried on extensive independent legal research and prepared his draft report (R. 820-844). After the master completed his draft report, he heard an additional full day of oral arguments in support

of and in opposition to suggestions of the parties (R. 873) and prepared a detailed supplemental report (R. 863-871).

The master necessarily devoted in excess of 638 hours of his time to the foregoing matters (R. 873), for which the District Court awarded him $22,330 (R. 926). This suggests the extent and character of the master's work. The District Court discredited the master's ability to adjudge the honesty of witnesses or to draw inferences from the evidence, and examined the entire case *de novo*. The District Court drew quite contrary conclusions as to the credibility of the witnesses and the inferences to be drawn from the evidence. It ruled that "substantially all of defendant's objections to the master's report must be sustained" (R. 925).

Upon subsequent review, the Court of Appeals, too, examined the cause *de novo* (R. 952-968). It rejected the principal grounds of the decision of the trial court and gave credit to the evidence supporting some of the master's findings. But on matters which the District Court treated as make-weights (R. 915), the Court of Appeals affirmed the judgment (R. 968).

Petitioner contends that the trial *de novo* form of review practiced by both the District Court and the Court of Appeals in this case and the failure of such courts to give credit to the evidence supporting the master's findings is in direct conflict with the Federal Rules of Civil Procedure and with applicable decisions of this Court.[10]

Rule 53(e)(2) provides:

> "In an action to be tried without a jury, the court shall accept the master's findings of fact unless clearly erroneous."

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10. If the petition be granted, petitioner, in its brief on certiorari, will cite strong evidence supporting the master's findings on each of the three contested issues in addition to that collected in the statement of the case.

Shepard's citations show that this Court has spoken but twice since adopting Rule 53(e)(2) on its proper interpretation.

In *Anderson et al. v. Mt. Clemens Pottery Co.* (1946) 328 U.S. 680, the fact issues in a Fair Labor Standards Act case were referred to a master. On one issue, the master's determination was reversed by the District Court, but was reinstated by the Court of Appeals. The following language is pertinent to this petition (page 689):

> "• • • This was purely a factual issue. The master made his findings in this respect through the weighing of conflicting evidence, the judging of the reliability of witnesses and the consideration of the general conduct of the parties to the suit. • • • Our examination of the record leads us to acquiesce in these findings since they are supported by substantial evidence and are not clearly erroneous. And the court below correctly held that the District Court erred in failing to accept these findings and in creating a formula of compensation based upon a contrary view. • • •."

In discussing another issue, as to which the master made no findings, this Court said, page 693:

> "• • • it is the duty of the trier of facts to draw whatever reasonable inferences can be drawn from the • • • evidence • • •."

And a *dictum* in *Universal Camera Corp. v. National Labor Relations Board* (1951) 340 U.S. 474, page 492, observes, footnote 24, that Rule 53(e)(2) " • • • gives finality to the findings of a master unless they are clearly erroneous."

In adopting Rule 53(e)(2), this Court apparently intended to cover the considerations applied in such cases as *Medsker v. Bonebrake* (1883) 108 US 66, 72; *Tilghman v. Proctor*

(1888) 125 US 136, 149; *Camden v. Stuart* (1892) 144 US 104, 118; and *Davis et al. v. Schwartz et al.* (1895) 155 US 631, 636, 637. The principles announced in these cases are that "the conclusions of the master, depending on the weighing of conflicting testimony, have every reasonable presumption in their favor" (125 US 149, 144 US 118); that the findings of a master "must be treated as unassailable" so far as they depend "upon conflicting testimony, or upon the credibility of witnesses or so far as there is any testimony consistent with" them (155 US 636); that the findings "must be treated as conclusive" if "there is nothing to show that the findings of fact were unsupported by the evidence" (155 US 637); and that even on review "the burden of sustaining the exception is on the objecting party" (108 US 72).

The considerations which the Court should have heeded are found in the foregoing cases and in the dissenting opinion of Chief Judge Major in *Hunter v. Dowd* (C.A. 7, 1952) 198 F.(2d) 13. At page 17, Judge Major observed:

> "The order appealed from, in my judgment, should be affirmed. True, as disclosed by the opinion, there were discrepancies in the records and conflict in the oral testimony of witnesses relating to the vital issue as to whether petitioner had the assistance of counsel at the trial which resulted in his conviction. The resolution of such discrepancies and conflict was, under our system, a matter for the district judge and not this court. He was in a better position to weigh and evaluate the testimony and to make an ascertainment of the factual situation.
>
> "I need not discuss the conflicting proof because the majority opinion discloses that this court has weighed and evaluated the testimony of the witnesses in reaching a result different from that of the district court. In my judgment, it cannot be plausibly asserted that the finding of the district court was 'clearly erroneous' so

as to make it an exception to Rule 52(a) of the Federal Rules of Civil Procedure. If this court is to weigh the conflicting testimony in this case and resolve a factual issue contrary to the finding of the district court, I see no reason why it could not do so in every case where the proof is in conflict. Such a practice would result not only in confusion but would enlarge the proper function of a reviewing court."

The same principle is stated in *Jacuzzi Bros. Inc. v. Berkeley Pump Co., et al.* (C.A. 9, 1951) 191 F.(2d) 632. The Court there said, page 634, in referring to the "clearly erroneous" provision of Rule 52:

"If there is not firm adherence to such a rule, everything is cast adrift. The trial courts find the facts. If appellate courts exercise no self-restraint, then, after the primary facts are thus found, these same facts are found anew twice over, with varying results. Not only is there no finality, but the findings may change with shifting personnel or on subsequent hearings. Not only finality, but stability is lost. All is confusion."

The foregoing considerations are comparable to those announced during the present term in regard to the findings of the Labor Board. *Radio Officers Union v. N.L.R.B.* (1954) ___ US ___, 98 L.Ed. (Advance P. 251, 272) decided generally that:

"• • • a fact-finding body must have some power to decide which inferences to draw and which to reject. • • •".

In the case at bar the Court of Appeals conceded that it gave no credence to the testimony of Birbeck and Given (R. 965, 973), and that it was "difficult to believe" Knox's testimony that he assumed respondent would employ the Farben process in its operation (R. 967). It also appears

that the Court did not agree with the inferences which the master drew from the corroborative evidence (R. 965-967, 973-974, 972-973). This is proof that the Court of Appeals failed to follow Rule 53(e)(2), the foregoing decisions of this Court, and the sound views presented in the *Hunter* and *Jacuzzi* opinions referred to above.

The grant of the writ in this case may help to define with more certainty the proper functions of reviewing courts respecting the worth of masters' reports on factual issues.

(2) The failure of the Court of Appeals to apply state law warrants the grant of the writ

Even if the facts were as found by the Court of Appeals instead of as found by the master, the decision of the Court of Appeals is in direct conflict with applicable state law on each of the three legal issues tendered for review.

U. S. Code, Title 28, Section 1652, provides:

> "The laws of the several states, except where the Constitution or treaties of the United States or acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply."

This statute and its predecessor, U. S. Code, Title 28, former Section 725, have been applied by this Court with consistency ever since *Erie Railroad Co. v. Tompkins* (1938) 304 U.S. 64. It controls such diverse issues as: conflicts of laws, *Klaxon Company v. Stentor Electric Manufacturing Co., Inc.* (1941) 313 U.S. 487; and *Griffin v. McCoach* (1941) 313 U.S. 498; the burden of proof, *Cities Service Oil Co. v. Dunlap et al.* (1939) 308 U.S. 208; and limitations of actions, *Guaranty Trust Co. v. York* (1945) 326 U.S. 99.

The mode of determination is prescribed in *Klaxon Company v. Stentor Electric Manufacturing Co., Inc.* (1941) 313 U.S. 487, where this Court said, page 497:

"* * * the proper function of the * * * federal court is to ascertain what the state law is, not what it ought to be."

(c) THE DECISION ON CONFIDENTIAL RELATIONSHIP IS IN DIRECT CONFLICT WITH CONTROLLING STATE LAW

The Court of Appeals, in its opinion, ignored the California law completely (R. 963-964). On the petition for rehearing, the Court urged that its original decision on the question of confidential relationship was based "solely" upon the written agreement (R. 972).

We observe from the four corners of the instrument that it is a bailment of intellectual property. The agreement is a license "to use" the processes in question, as well as other intellectual property; this limited right "to use" was conditioned upon the payment of a royalty on all carbonyl produced; the licensee had the right to dispose of its "rights" under the agreement only upon prior notice to the petitioner and upon the asumption by its assignee of the royalty payments due to the petitioner.

We note that this agreement grants Hamilton no "rights" to disclose or sell the processes to others and that it grants Hamilton and his successors no right to transfer his license "to use" the technical information to others except under the conditions stated.

In California, where the licensed processes were used and transferred to respondent, a bailment is a contract creating a confidential or fiduciary relationship as a matter of law. Even in criminal cases, where the state must prove its case beyond a reasonable doubt, the California courts have insisted that "stating that the property was entrusted to de-

fendant as bailee, sufficiently showed a fiduciary relation". See *People v. Gordon* (1901) 133 Cal. 328, 330. Cf. *People v. O'Brian* (1908) 8 Cal. App. 641, 645.

And in *Hollywood Motion Picture Equipment Co. v. Furer* (1940) 16 C.2d 184, the Court concluded, page 188:

> "• • • Where a bailee of an article has accepted it under definite terms to hold it and to use it for the benefit of the bailor, a confidence has been reposed which should remain inviolate."

The Court of Appeals held (R. 970) that the *Hollywood* case cannot be construed as holding that the California courts recognize a bailment of intellectual information, as such, apart from its express embodiment in tangible, chattel form.

The California Civil Code precludes such a narrow interpretation of the law of bailments. Sec. 4, provides:

> "• • • The code esablishes the law of this state respecting the subjects to which it relates, and its provisions are to be liberally construed with a view to effect its objects and to promote justice."

The California Civil Code provisions on bailments are broad and comprehensive. They relate generally to "property"[11] (Section 1925) and to the "thing"[12] hired in general terms (Section 1926-1935).

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11. A trade secret is "property" under California law, *Sketchley v. Lipkin* (1950) 99 C.A. 2d 849, 854; *Empire Steam Laundry v. Lozier* (1913) 165 Cal. 95, 99; California Civil Code, Sections 654, 655, 980.

12. Webster's New International Dictionary defines "thing" as follows:

"1. Whatever exists, or is conceived to exist, as a separate entity, or as a distinct and individual quality, fact, or idea; any separable or distinguishable object of thought."

"2. (f) Whatever may be possessed or owned, or be the object of a right;—as distinguished from person."

Section 1928 requires that:

"The hirer of a thing must use ordinary care for its preservation in safety and in good condition."[13]

And Section 1930 recites:

"When a thing is let for a particular purpose the hirer must not use it for any other purpose; * * *."

The California constitution also precludes a different concept of the law when applied to tangible chattels as distinguished from other things. The *Constitution of California*, Article I, Section 11, provides:

"All laws of a general nature shall have a uniform operation."[14]

And so the broad concepts of the *Hollywood* case are applied to intangibles time and time again, i.e., to "trade or business secrets consisting of information" in *Riess v. Sanford* (1941) 47 C.A. 2d 244, 245, 247; to "confidential business information" in *Barnes v. Cahill* (1943) 56 C.A. 2d 780, 785; to "a trade secret" in *Sketchley v. Lipkin* (1950) 99 C.A. 2d, 849, 854; and to a "process" in *Lee v. Samburn* (Cal. Superior Court, 1952) 94 U.S.P.Q. 153, 154.

Other courts also apply the *Hollywood* doctrine in intangible trade secrets. For example, in *Jones v. Ulrich* (1950) 342 Ill. App. 16, the court relied in part upon the *Hollywood* case, page 32, and held, page 26, that a royalty agreement "in itself implies a confidential relationship because without such confidence, such an agreement in practicality would be a nullity."

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13. Cf. "* * * the process must be kept secret, in order to be of any value * * *." *Central Transportation Co. v. Pullman's Palace Car Co.* (1891) 139 US 24, 53.

14. Cf. "Our legal system has not established different measures of proof for the trial of cases in which equally intelligent and responsible defendants are charged with violating the same statutes." *Associated Press v. United States* (1945) 326 US 1, 5.

Having thus shown that the disclosure from petitioner to its licensee was a confidential disclosure with the statutory obligations to preserve it in safety, it *ipso facto* follows that the disclosure and "sale" by the officers of Ferroline Corporation of California to respondent was in breach of confidence. Such disclosure and "sale" was not permitted under the express terms of the agreement. The decision of the Court of Appeals therefore is in direct conflict with the laws of California.

(b) THE OPINION IS IN DIRECT CONFLICT WITH CONTROLLING STATE LAW ON THE QUESTION OF NOTICE

The Court of Appeals should have tested the right of the respondent to use the process of petitioners in the light of the general principle that Birbeck had no right to sell that which he did not own and that a purchaser from a bailee, however innocent he may be, acquires no title as against a bailor. This general principal is of almost universal application, as appears from 6 Am. Jur. 262, *Bailments,* Section 126, and 8 CJS 313, *Bailments,* Section 39a(1) and (3). None of the New Jersey cases evinces any desire to limit this general rule.

In New Jersey the presence or absence of notice (R. 963-967, 973-978) is significant *only upon the period of the accounting* and not upon the right to injunctive relief and to an accounting.

If the unauthorized user of the trade secrets has no notice prior to the filing of the complaint, the New Jersey courts grant injunctive relief and commence the accounting period with the date of filing the complaint. If notice is shown prior to the filing of the complaint, then the accounting period covers the full period of use.

The Court of Appeals recognized this rule by its citation of *Vulcan Detinning Co. v. American Can Co.* (1909) 75

NJ Eq. 542 (R. 976, 977), but failed to apply it. In that case the Court held, page 544:

> "• • • after the complainant filed its bill in this cause, and spread its whole case before the can company upon that pleading, the latter had full notice of the complainant's rights, and, in continuing the user of the secret process after that notice, it became a willful wrongdoer."
>
> "We conclude, therefore, that the complainant is entitled to an accounting from the can company of all profits made by it through the use of the secret process, from the date of the filing of this bill in this cause up to the time of the taking of the account."

Oscar Barnett Foundry Co. v. Ironworks Co. (1913) 81 NJ Eq. 412, aff. per curiam (1913) 81 NJ Eq. 515, 516, holds that a third party "would be liable from the time when they first had notice of complainant's rights." (p. 415) and grants injunctive relief as well.

Subsequent cases grant an accounting for the full period upon a showing of notice equivalent to that in the case at bar. Illustrative examples include *Irving Iron Works v. Kerlow Steel Flooring Co.* (1926) 103 NJ Eq. 240, 244; and *A. Hollander & Son, Inc. v. Imperial Fur Blending Corp., et al.*, (1949) 2 N.J. 235, 250-251.

Cases compatible with the New Jersey law and allowing a full accounting for the unauthorized use of intangible intellectual things include *Green v. Folgham* (1823) 1 Sim. & St. 398, 406-407, 57 Eng. Rep. 159, 162-163; *Ambler v. Whipple* (1874) 20 Wall. (87 US) 546; and *A. O. Smith Corp. v. Petroleum Iron Works Co.* (CCA 6, 1934) 73 F.(2d) 531, 539. Cf. *Lee v. Samburn* (Cal. Superior Court, 1952) 94 USPQ 153, 156 awarding "damages."

Therefore whichever way the conflict on the question of notice should have been decided, failure to award petitioner any relief whatsoever is contrary to all controlling law.

(c) THE OPINION IS IN DIRECT CONFLICT WITH CONTROLLING ILLINOIS LAW ON THE LACHES ISSUE

In deciding the issue of *laches*, the Court of Appeals refused to give credence to the testimony of Knox (R. 967). On the basis of such refusal, the Court held that there was a duty on petitioner to inquire whether respondent was employing its processes (R. 967). Assuming, *arguendo*, that the Court of Appeals had the right to ignore the testimony supporting the master's finding on the *laches* issue, the imposition of a duty to inquire is in conflict with the controlling Illinois law.

The Illinois cases excuse diligence where there is a confidential relationship. The Court of Appeals admitted that "isolated language" tends to support the proposition, but called it an "extreme view" repudiated by later decisions (R. 978) citing *Skrodzki v. Sherman State Bank* (1932) 348 Ill. 403, and *Klee v. Chicago Trust Co.* (1937) 365 Ill. 354.

The decisive answer is that the Illinois courts have restated the proposition and have reapplied it subsequent to these two cases. One example is *Winger et al. v. Chicago City Bank and Trust Company et al.* (1945) 325 Ill. App. 459, where the Illinois rule was epitomized (page 487) as follows:

> "Our courts hold that the failure to use diligence is excused where there is a relation of trust and confidence rendering it the duty of the party committing fraud to disclose the true facts to the person whose trust and confidence has been abused. In such cases the statute of limitations or the beginning of the running of time upon which laches can be predicated only arises when the fraud is discovered.

The Illinois Supreme Court on review, (1946) 394 Ill. 94, at page 118 stated:

> "The question of laches * * * (has) been adequately and completely disposed of by the opinion of the Appellate Court, which we approve."

Substantially the same language as that set forth above is announced and is applied in *Auer et al. v. William Meyer Co. et al.* (1944) 322 Ill. App. 244, where the Court held, page 262, that the foregoing rule "is the established law of this State."

The *Auer* and the *Winger* cases are cited with approval and are applied in *Pelcak v. Bartos* (1946) 328 Ill. App. 435 at page 446, noted in the opinion on rehearing (R. 978).

The Court overlooked that *Penn v. Fogler* (1899) 182 Ill. 76 (R. 977) was cited with approval and was applied in *Auer et al. v. Wm.Meyer Co.* (1945) 322 Ill. App. 244 at page 264 and in *Merchants National Bank of Aurora v. Frazier et al.* (1946) 329 Ill. App. 191, at page 206.

The Court also overlooked that *Wilson v. Augur* (1898) 176 Ill. 561 (R. 977) was cited with approval and was applied, and that *Klee v. Chicago Trust Co.* (1937) 365 Ill. 354 (R. 977-978) was distinguished and held inapplicable beyond its own facts in *Corcoran v. Waugh* (1938) 368 Ill. 318, at page 323.

The *Corcoran, Winger, Auer, Pelcak* and *Merchants Bank* cases are all subsequent to the *Skrodzki* and *Klee* cases upon which the Court of Appeals relied to justify its decision that "later decisions • • • repudiate this extreme view." (R. 977).

The view of the Court of Appeals, theretofore, that the doctrine has been repudiated is in direct conflict with the "established law" of Illinois. The Court of Appeals failed to follow its duty "to ascertain what the state law is."

(3) The failure of the Court to recognize the prevailing moral trend warrants the grant of the writ

The Court of Appeals was of the view that trade secrets were a special sort of property governed by special rules substantially limiting the rights of a trade secret owner.

This underlying fallacy is contrary to prevailing judicial thinking.

For example, on December 9, 1953, two days after the Seventh Circuit denied rehearing in the instant case, the Second Circuit handed down its opinion in *Franke et al. v. Wiltschek* (CA 2, 1953) 209 F.(2d) 493, 99 USPQ 431. Defendants there sought to apply strict principles of law to justify their use of plaintiff's trade secrets. The opinion illustrates a complete divergence from the strict attitude of the Seventh Circuit in the instant case. At page 499 the Court said:

> "• • • there is positive danger in resort to the same device to justify the marauding instincts of trust violators, since thereby the carefully built law of trade secrets may be destroyed as a practical matter and such business assets be left open to hijacking from all sides. • • •".

At page 499, after referring to the Restatement on Torts, the Court said:

> "• • • 'the tendency of the law, both legislative and common, has been in the direction of enforcing increasingly higher standards of fairness or commercial morality in trade. The tendency still persists.' (Citations omitted.) The present case surely is not one where we are disposed to attempt to reverse the trend."

This same trend is axiomatic in California, where the wrongful act of disclosing and selling the petitioner's process to respondent occurred. In *Hollywood Motion Picture Equipment Co. v. Furer* (1940) 16 C.2d 184, the Court said, page 188:

> "• • • Defendant did not acknowledge the dominance of a fundamental percept of honesty and fair dealing, enjoined by the Decalogue and supported by prevailing moral concepts. 'Thou shalt not steal' applies with equal force and propriety to the industrialist of a com-

plex civilization as to the simple herdsmen of ancient Israel."

In *Irving Iron Works v. Kerlow Steel Flooring Co.* (1926) 103 NJ Eq. 240, 243, a third party trade secret case, the court, in reviewing master's findings, stated:

"• • • this inquiry should be approached with the thought in mind that all doubts should be resolved against a fraud-doer."

And in *International News Service v. Associated Press* (1918) 248 US 215, this Court criticized a third party defendant who pirated from plaintiff's licensees news gathered by plaintiff—calling it an endeavor of the defendant to "reap where it has not sown" (p. 239).

It therefore appears that the Court of Appeals "has so far departed from the accepted and usual course of judicial proceedings • • • as to call for an exercise of this Court's power of supervision" within the ambit of Rule 38, section 5(b).

CONCLUSION

In conclusion petitioner respectfully prays that the writ of certiorari be issued.

Respectfully submitted,

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APR 8 1954
HAROLD B. WILLEY, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM 1953

No. 623

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE AND FILM CORPORATION,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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The Scheffer Press, Inc.—ANdover 3-6850

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

To the Honorable, the Chief Justice, and Associated Justices of the Supreme Court of the United States:

STATEMENT OF THE CASE.

This case involves the commercial process for the manufacture of iron pentacarbonyl. The evidence is substantially free from conflict; the trial judge expressly so finding (R. 940). With one exception noted hereafter, the entire case turned on the interpretation to be given a large number of undisputed documents, and undisputed testimony.

Iron pentacarbonyl is of commercial importance at the present time only as an intermediate product in the manufacture of iron powder, used in the manufacture of radio cores (MR, R. 820, FF, R. 926).* Defendant is the only company which has successfully manufactured iron powder in the United States.

* In this brief MR means Master's Report; MSR means Master's Supplemental Report; FF means finding of facts.

The commercial process for the manufacture of iron pentacarbonyl was invented by the I. G. Farbenindustrie in Germany in 1923 and was put into commercial production in Germany in 1924 (MR, R. 820, 926; 367-72). The process was patented both in Germany and the United States. Defendant negotiated for all of the processes, patents and know-how of the Germans immediately following the outbreak of the recent World War II, in September 1940, (R. 823) and had acquired them and been thoroughly instructed therein by the end of March 1940 (MR, R. 823, MSR, R. 866, FF, R. 927).

But when defendant sought to construct its plant in the United States, it found that, because of war shortages, no suitable apparatus could be procured for a very long time (MR, R. 824, 930). At this point defendant had an apparent piece of good luck—it ran into an iron pentacarbonyl plant in California which was for sale. One of I. G. Farben's American agents (Chemnyco) had been in correspondence with Thomas E. Birbeck of California, president of the California carbonyl company, which was seeking a license to make carbonyl under the German owned patents. Defendant learned of this through Chemnyco, and began negotiations with Birbeck, either to buy carbonyl from the California company (for conversion to iron powder), or to purchase the California apparatus. (D. Ex. 39, 41, 42, 43, 44, 45, 46, 47, 47A; P. Ex. 23) Both were for sale.

Everyone concerned—the Germans (R. 593), Birbeck (D. Ex. 40), his plant manager, and defendant's chemists (D. Ex. 46)—soon decided that the only economical way to manufacture iron powder was to make it in the same plant with the iron pentacarbonyl (MR, R. 822-3). This was because one of the raw materials in the manufacture of iron pentacarbonyl—carbon monoxide, is released as a

by-product in the manufacture of the powder, and can be re-used. Defendant accordingly made a rather quick purchase of the apparatus belonging to Birbeck's company, the Ferroline Corporation of California, after examining it and finding it suitable.

In selling defendant the apparatus, the California parties fully explained the operation of the same to the defendant. This explanation was written up into a report by defendant's chief engineer; was produced at the outset of the trial at the request of the plaintiff. and was received in evidence (P. Ex. 16).

Defendant's examination and purchase of the California apparatus was expressly invited by the California parties (D. Ex. 45), and was routine in all respects. The California plant had scarcely ever operated (only 9 days altogether MSR par. 128 R. 870, 861) and it was necessary for defendant to examine the apparatus carefully to see if it would operate and was in conformity with New Jersey law (R. 125; 175). This was the purpose of the inspection (R. 174-175).

Whatever information defendant got from California was learned after defendant acquired the patents and complete information as to the carbonyl process from the Germans.

The California "process" was a complete infringement of the German process, and of the patents owned by defendant. They were virtually identical; the trial court found they were the same. The patents disclose that the process is operable from atmospheric pressure, to very high pressures exceeding 3000 pounds per square inch; the patents also teach there is increased efficiency at the higher pressures. (D. Ex. 69, 70, 71, 72, 75; See R. 903-915). The process was operated by the Germans at a

maximum of 3000 pounds per square inch, with correspondingly higher temperatures. The California process was operated at a maximum of 1000 pounds per square inch, with correspondingly lower temperatures. This lesser pressure and temperature is the chief factor of plaintiff's alleged process, and the only difference between plaintiff's method and the German method of sufficient significance to be mentioned by either the Master (R. 829), the trial court (R. 922) or the Court of Appeals (R. 956). Although this pressure (1000 pounds per square inch) and temperature was mid-way in the range of permissible pressures and temperatures disclosed in the patents, the Master found the 1000 pound per square inch process constituted a "secret process" of the plaintiff. The trial judge disagreed. The circuit court of appeals concluded that the trial court should not have reversed the Master on this point, since it concluded there was evidence to support the finding.

Nevertheless, the German and California process and apparatus were so similar that the California parties, even before defendant was in the picture, were admittedly seeking an I. G. Farben license to permit them to use the apparatus to manufacture iron pentacarbonyl and powder (R. 378; MSR par. 15, R. 866, 849); and defendant's scientists on seeing the apparatus, at once told the California parties that the California plant was an infringement (R. 59, 60) (D. Ex. 21, par. 7).

The process disclosures of the Farben patents acquired by defendant are set forth in the opinion of the District Court (R. 904-915) and their similarity and identity with plaintiff's alleged process shown (R. 904-915).

Dr. George Granger Brown, whom the Master characterized as:

"• • • a most competent chemist, with a distinguished career, who is presently occupying a very important post with the atomic energy commission • • •" (MR, R. 828).

testified without substantial contradiction that

(a) Plaintiff's alleged secret process for the manufacture of iron pentacarbonyl is completely described in all its essentials by defendant's U. S. Patent 1759268. (D. Ex. 71) (R. 735)

(b) Any competent chemical engineer, from an examination of five of defendant's patents (D. Ex. 69, 70, 71, 72 and 75) could have, at any time after 1932, constructed a successful commercial iron pentacarbonyl plant (R. 720).

Both the Master and the district court expressly found that none of the California parties stated to defendant's representatives that the process was "secret", or claimed to be secret (M.S.R. Par. 130, R. 870, 861; R. 930, F.F. 15). Birbeck, president of the California company urged defendant's chief chemist to examine his carbonyl plant, stating in a letter: "You might express to him my urgent desire to have him inspect the plant, as we have nothing to hide." (Def. Ex. 45). Seeing apparatus constructed and operating according to the patents which defendant owned, defendant offered to buy and bought most of the apparatus—all that could be suitably moved to New Jersey (D. Ex. 46; R. 149, 150; P. Ex. 17); and then had a staff of engineers spend six months (R. 553, 555) designing an iron pentacarbonyl plant, using all the information available—patents, German designs, German know-how, California apparatus and operating data, as well as the services of a former I. G. Farben scientist, Dr. Carl Mueller, (R. 387, 391; 460) who had developed the German commercial carbonyl process, and to whom many of the basic patents had been issued (MR, R. 821, R. 362, 367-72) (whom the Master said was "• • •

recognized as one of the greatest living authorities on carbonyl''. R. 827). This plant was duly built and put into operation some ten months after defendant's first inspection trip to California. Except for the maximum working pressure involved (1000 pounds instead of 3000 pounds) defendant's new plant operated like the German apparatus (R. 523; 468-513).

Plaintiff had some years before,—about 1936—, undertaken to produce a gasoline anti-knock compound, expected to be competitive with tetraethyl lead; the main ingredient was iron pentacarbonyl, and the anti-knock compound was produced by a secret process or formula disclosed to plaintiff by one Johnsen, (R. 319) for the use of which plaintiff was to pay a royalty to Johnsen (P. Ex. 3, 4). Johnsen had imported his iron pentacarbonyl from Germany (R. 199), and did not know how to make it (MSR, par. 3, R. 864-5; 848).

Plaintiff studied the I. G. Farben patents thoroughly, and hired one Michael Leahy to attempt to design and construct a non-infringing carbonyl plant (R. 200; 201; MSR, par. 5, R. 865). Leahy was unsuccessful (R. 865, 867; 231; 928); but by employing the process described in the I. G. Farben patents in a pilot plant, he obtained carbonyl in commercial quantities (MSR, R. 865, 867; 201). Plaintiff thereupon dismissed Leahy and hired one Dr. Morris Levine who built plaintiff a plant to manufacture iron pentacarbonyl (R. 202) using the process disclosed in the patents (R. 212, 233-4). In the contract with Levine, who did not testify and whose absence was not explained, plaintiff agreed to hold Levine, who was to receive royalties, harmless against infringement suits (MSR, par. 9, R. 867).

Plaintiff manufactured some iron pentacarbonyl, but was never successful in making a commercially success-

ful anti-knock compound, (Def. Ex. 37) being unable to eliminate serious fouling tendencies (R. 319, 320).

However, plaintiff afterward licensed the California company to make the anti-knock compound in California, with exclusive right to sell the same in certain western states (P. Ex. 9). Plaintiff also designed an iron pentacarbonyl plant for the California parties, which was duly constructed, but which was operated for a few days only (R. 54; MSR par. 128, R. 870). The California company could not market its product, and never paid any royalties to plaintiff (R. 219).

Within two weeks after selling its carbonyl apparatus to defendant (as set forth above), the president of the California company wrote to the plaintiff, stating that the California company's entire carbonyl plant had been sold to defendant, which had also acquired the German-owned carbonyl patents; and that defendant intended to use the apparatus to manufacture iron pentacarbonyl (Def. Ex. 21). Both the president, (Blocker) and the chief operating officer (Knox) of the plaintiff company distinctly remembered receiving this letter. (R. 219, 220; 332, 333)

Plaintiff showed no interest, made no inquiry, gave no notice to defendant of any claimed rights in any process, but instead stood by for some five years while defendant paid the balance due for the California equipment, built its plant, using much of the California apparatus, and developed a substantial business in iron powder.

The only conflict of evidence in the case relates to certain conversations between plaintiff's witness Birbeck and defendant's chief chemist Von Aickelin (who had died before the suit started) in the presence of other witnesses, in Los Angeles, California. The Master's find-

ing that defendant had failed to disprove that it received certain knowledge in that conversation was overturned by the District Court, and again by the Circuit Court of Appeals because (1) the Master had erroneously placed the burden of proof on defendant, when it should have been placed on plaintiff; and (2) the finding was clearly erroneous, and against the overwhelming weight of the evidence.

The Master found that defendant had knowledge of plaintiff's rights to the low-pressure process, relying *solely* on the testimony of Thomas E. Birbeck (MSR, Par. 18, R. 866) who made the sale of the California apparatus to the defendant, and who testified that in fairly lengthy negotiations with defendant's agents, he uttered this single sentence, "We had paid good money to the Ferroline Corporation of Shreveport for the privilege of making this carbonyl; that we were under obligation to them and we were going to make it." (R. 278) The Master credited Birbeck's testimony and held it charged defendant with knowledge of plaintiff's rights, although he also found that Birbeck, charged by plaintiff with a breach of trust and presumably hostile to plaintiff, had been promised, before he testified for plaintiff, a percentage of plaintiff's recovery in this action. (DS 19, R. 849, MSR, R. 866, par. 19). Birbeck's testimony was contradicted by the only living agent of defendant who was present—Vom Rath (R. 808; R. 293); and was not corroborated by plaintiff's witness Given—who was present.

No witness other than Birbeck testified to any conversation concerning any obligation of the California company to plaintiff. The Master expressly corrected his report to so indicate (MSR, par. 18, R. 866).

Whereas, the Master held defendant had not sustained the burden (which he placed on defendant) of proving

lack of knowledge of plaintiff's rights, both the trial judge and the court of appeals held that the Master had placed the burden of proof on the wrong party, and that plaintiff had failed to prove one of the essential elements of a secret process case—i.e., that defendant had any knowledge or notice of plaintiff's rights in the process. (R. 919; F.F. 22, R. 933; CL 5, 15, R. 940, 942; R. 964-967).

Plaintiff has had no carbonyl plant and has been wholly out of business since April, 1941, when it went out of business and completely liquidated, after selling its plant and processes to Defense Plant Corporation (D. Ex. 10). The trial court held as a matter of law in construing the written agreements, that plaintiff's process (if any) was sold to the Defense Plant Corporation in 1941 (CL 19, R. 943, FF 42, R. 937) and that plaintiff no longer owned any process when it started this suit. The Court of Appeals agreed.

ARGUMENT.

1. Both the Trial Court and the Court of Appeals Accorded Full Effect to Rule 53(e)(2) of the Federal Rules of Civil Procedure.

Upon a careful review of the entire record in this case, the District Court concluded (R. 940):

> "2. The evidence in the instant case is almost wholly free from conflict. Of the many documentary exhibits offered by each party, none is challenged or disputed; and the testimony of the various witnesses is largely uncontradicted. The objections * * * relate principally to the inferences and deductions drawn by the Master from the uncontradicted oral and documentary evidence in the case, and to the conclusions of law of the Master."

This finding of the District Court is correct. The testimony of plaintiff's witnesses was confined exclusively to plaintiff's very limited operations in Louisiana, and to the organization, abortive operation and ultimate liquidation of Ferroline of California. Defendant's witnesses testified concerning events occurring in Europe, and in or near Grasselli, New Jersey. The only common ground upon which the testimony of any of these various witnesses overlap relates to one conversation in Los Angeles between Birbeck, Aickelin and Vom Rath.[1]

Further, two of plaintiff's five witnesses in chief, Knox and Given, testified by deposition only. As to the testi-

[1] Fill, Neighbors and Goldwasser, testifying for defendant, contradicted Knox and Blocker as to certain occurrences in Louisiana. However, the Master's findings as to this dispute of testimony, largely but not wholly in defendant's favor, were not challenged by either party, or disturbed.

mony of these witnesses, the Trial Court and the Court of Appeals were in as good a position as the Master to pass upon its credibility and weight. With the single exception of an alleged statement by Birbeck, plaintiff's contention that the Courts below failed to properly apply Rule 53(e)(2) relates exclusively to the testimony of its two deposition witnesses, Knox and Given.

The provisions of Rule 53(e)(2) concerning review of a master's findings of fact prescribe essentially the same test applicable to corresponding findings of a trial court under Rule 52(a).

In *United States* v. *United States Gypsum Co.*, 333 U.S. 364 (1948), this Court made it clear that Rule 52(a) was essentially a restatement of the rule prevailing under the former equity practice, and stated (p. 395):

> "The practice in equity prior to the present Rules of Civil Procedure was that the findings of the trial court, when dependent upon oral testimony where the candor and credibility of the witnesses would best be judged, had great weight with the appellate court."

The purpose of the "clearly erroneous" standard of review is plain. Where the initial trier of facts must resolve contradictory testimony of witnesses, and has the opportunity of observing their demeanor, he is in a superior position to determine credibility and to resolve conflicts. Rules 52(a) and 53(e)(2) are designed to insure that appropriate effect be given to evidentiary findings based upon contradictory testimony. *Orvis* v. *Higgins*, 180 F. 2d 537 (2d Cir., 1950); *cert. den.* 340 U.S. 810 (1950); *Arnolt Corp.* v. *Stansen Corp.*, 189 F. 2d 5 (7th Cir., 1951).

The necessary corollary is that no similar presumption of validity attaches to the conclusions of law, either intermediate or ultimate, of the decision under review. Nor is a reviewing court precluded from re-examining findings

upon mixed questions of law and fact. It is precisely to correct errors of this character that review is provided.

As stated in Professor Moore's new treatise:

> "The master's conclusions of law have no effect except to the extent that they are correct propositions of law. * * *
>
> "And an ultimate finding by a master that involves a mixed question of law and fact is subject to a scrutinizing and careful review." 5 Moore's Federal Practice 2989 (2d ed. 1951).

This distinction, between evidentiary findings of fact and conclusory findings upon ultimate legal issues, and the essentially different standards of review applicable to each, were noted by this Court in the recent case of *Dalehite* v. *United States*, 346 U.S. 15 (1953). This Court pointed out (p. 24):

> "Fed. Rules Civ. Proc., Rule 52 (a), 28 U.S.C.A., in terms, contemplates a system of findings which are 'of fact' and which are 'concise.' The well-recognized difficulty of distinguishing between law and fact clearly does not absolve district courts of their duty in hard and complex cases to make a studied effort toward definiteness. Statements conclusory in nature are to be eschewed in favor of statements of the preliminary and basic facts on which the District Court relied. * * * Otherwise, their findings are useless for appellate purposes. In this particular case, no proper review could be exercised by taking the 'fact' findings of 'negligence' at face value. And, to the extent that they are of law, of course they are not binding on appeal."

Much the same difficulty of delineating between the findings of *fact* and the conclusions of *law* of the initial trier of facts, which were noted in the *Dalehite* case, is also present in this case. The Master's Report (R. 820-844; 863-871), far from containing distinct findings of fact and

conclusions of law, is in the form of an opinion and consists largely of a series of ultimate inferences drawn by the Master from the uncontradicted oral testimony and documentary exhibits.

To the extent, however, that the Master did determine conflicting questions of fact, such determinations were accorded full effect by both the District Court and the Court of Appeals. In setting forth the standards which governed his review of the Master's Report and Supplemental Report, the trial judge stated (R. 939-940):

> "In the review of the Report and Supplemental Report filed herein by the Master to whom the present case was referred, and the objections to said reports, the Court has been governed by the standards of Rule 53 (e)(2) of the Federal Rules of Civil Procedure, which prescribes that the Master's findings of fact shall be accepted unless clearly erroneous. In reviewing those findings of fact of the Master which depend in whole or in part upon the resolution of conflicting oral testimony, the Court has therefore accepted such findings of fact, except as to the extent that, upon a review of the evidence, the Court finds that there is no substantial evidence to support such findings, or is left with the definite and firm conviction that such findings are clearly erroneous."

The standard of review employed by the trial court was precisely that prescribed by this Court in *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 395 (1947).

The Court of Appeals was equally cognizant of the requirements of Rule 53 (e)(2), as demonstrated by its analysis of the scope of review available in passing upon the findings of the Master. The Court said (R. 960):

> "Findings of fact by a master are binding on the trial court unless clearly erroneous. F. R. Civ. P. 53 (e) (2). The threshold question here then is the same as it was in the court below,—whether, as a matter of

law, the master's findings of fact were clearly erroneous. Even where, as here, the oral testimony is largely uncontradicted, the trial court must respect the advantage the master enjoyed when he saw and heard the witnesses and was thus enabled to judge of their veracity and credibility. *Santa Cruz Oil Corp.* v. *Allbright-Nell Co.*, 115 F. 2d 604. Neither the trial court nor this one may refuse to recognize the findings 'merely because of a difference in personal persuasion or a dissatisfaction with the result reached'. *Sanitary Farms Dairies* v. *Gammel*, 195 F. 2d 106; *Webb* v. *Frisch, et al.*, 111 F. 2d 887."

In a number of instances the Court of Appeals, after painstaking analysis of the record, concluded that certain of the findings of the Master did depend upon a resolution of conflicting testimony and a determination of credibility, or were supported by substantial evidence, and accordingly should not have been rejected by the District Court (R. 959, 962, 963).

It is this careful attention to the mandate of Rule 53 (e) (2) by the Court of Appeals upon which plaintiff grounds its assertion that the Court of Appeals "examined the cause *de novo*." (Pet., p. 12) Nothing could be farther from the fact. On each of the three issues as to which plaintiff would seek a reversal, both the trial court and the Court of Appeals were in entire agreement. Further, as to each of these issues, the actions of the District Court and of the Court of Appeals, of which plaintiff complains, pertained almost entirely to the correction of erroneous legal conclusions of the Master.

The trial court, in sustaining defendant's objections to the Master's Report, and the Court of Appeals, in affirming the decision of the trial court:

1. Construed the written contract between plaintiff and Hamilton (later assigned by Hamilton to Ferroline of California) and held, as a matter of law that

the written contract, as subsequently modified in writing by the parties, could not be construed to impose any obligation of secrecy upon Hamilton (Dist. Ct. Op., R. 915-917; Ct. of App. Op., R. 963-964, 970-973).

2. Held (contrary to the Master) that, as a matter of law, the burden of proving defendant's knowledge or notice of any breach of trust was a part of plaintiff's case (Dist. Ct. Op., R. 919, 940; Ct. of App. Op., R. 964-965).

3. Found that the testimony of Birbeck, even if accepted as true, was insufficient, as a matter of law, to charge defendant with notice of any claim of plaintiff at the time defendant purchased the California apparatus and operating data, constructed its plant, and entered into the production of carbonyl (Dist. Ct. Op., R. 919-920; Ct. of App. Op., R. 965, 973-974).

4. Held that letters to plaintiff's officers fully disclosing defendant's purchase of the California equipment and intention to employ such equipment in the production of carbonyl, coupled with the undisputed fact that plaintiff knew the equipment was suitable only in an operation such as plaintiff employed, charged plaintiff with knowledge as early as 1940, long prior to the erection of defendant's plant, that defendant would employ a process involving plaintiff's alleged "secret"; and that by remaining silent until 1945, plaintiff was guilty of gross *laches* (Dist. Ct. Op., R. 920-922; Ct. of App. Op., R. 967-968, 978-979).

The trial court and the Court of Appeals did not disregard the findings of fact of the Master, but instead corrected errors of law committed by the Master in framing his report.

Little comment is required concerning the many cases cited by plaintiff under this section of its brief, and dealing with the clearly erroneous standard of review under Rule 53(e)(2) and 52(a). The basic principles announced in all of these decisions are sound, but are inapplicable to

the review in issue here. Each of them, insofar as they invoke the clearly erroneous rule, involved a "factual issue" (*Anderson, et al.*, v. *Mt. Clemens Pottery Co.*, 328 U.S. 680, 689 (1946)); "the weighing of conflicting testimony" (*Tilghman* v. *Proctor*, 125 U.S. 136, 149 (1888)); or "the credibility of witnesses" (*Davis, et al.*, v. *Schwartz, et al.*, 155 U.S. 631, 636 (1895)).

Respondent submits that Rule 53(e)(2) has been painstakingly applied by the courts below; that the present record evidences no lack of understanding of "the proper functions of reviewing courts respecting the worth of masters' reports of factual issues" (Pet., p. 16); and that plaintiff's reliance upon Rule 53 (e)(2) furnishes no substantial ground for the grant of *certiorari* by this Court.

2(a). The conclusion that the written agreement between plaintiff and the California Company did not require the latter to preserve the secrecy of the carbonyl process is in accord with state law.

The contract was between plaintiff and Hamilton (who did not testify), the latter assigning his rights to the California company. The agreement is in writing. (Pl. Ex. 9). By the express terms of the agreement, the "secret processes" which California is licensed to use are those "obtained by Ferroline from and under Wm. H. Johnsen * * *". (Pl. Ex. 9). Johnsen had secret processes or formulae for making an anti-knock; he had no process whatever for making iron pentacarbonyl. It thus appears from the grammatical context that the secret processes mentioned are only those obtained by plaintiff from Johnsen.

The contract between plaintiff and Hamilton recites that a copy of the Johnsen contract is attached (Art. 1), and provides (Art. 3, Sec. 2) that it shall be co-extensive and concurrent with the Johnsen-Knox contract (owned

by plaintiff). Plaintiff furthermore expressly agreed never to surrender or alter its agreement with Johnsen (which is attached as an exhibit to Hamilton's contract) in any way which would affect Hamilton's rights. Contrary to plaintiff's assertion, the Hamilton agreement does not refer to the Bradley Murray agreement.

The district court concluded that the only reasonable construction of the contract was that "plaintiff conveyed to Hamilton only such secret processes as had been obtained from Johnsen". (R. 916). The court of appeals likewise concluded that the restrictions on disclosure related only to the Johnsen anti-knock (R. 964, 972).

This is substantiated by the absence of any statements at any time by plaintiff to the California parties (who were instructed in carbonyl manufacture by plaintiff (R. 48)) that the carbonyl process was to be kept secret.

The master found there was no express agreement, oral or written, between plaintiff and California as to carbonyl secrecy, but thought he might imply one (MSR, R. 866). However, each of the courts below held, as a matter of law, that no such agreement could be implied.

There was an express provision (Par. 7, Pl. Ex. 9) in the written agreement restricting Hamilton's use of the "secret process"; but this provision was later (October 1938) *deleted* from the contract by a written amendment executed by plaintiff and the California company (P. Ex. 14), the amendment otherwise reaffirming the agreement.

Where a written contract contains an express provision on a given subject, the law will never imply one. *Martin* v. *City of Port Huron*, 111 Fed. (2d) 759, 761 (1940); *Walker* v. *Brown*, 28 Ill. 378, 383 (1862), and California cases cited by the Court of Appeals. (R. 972).

This rule has been applied in trade secrecy cases by the courts of New Jersey. *Taylor Iron and Steel Co.* v. *Nichols, et al.*, 73 N. J. Eq. 684, 69 Atl. 186, 187 (1908), where the Court of Errors and Appeals held that where a workman had entered into a written contract, agreeing not to make known before January 1, 1902, "any information which he should receive at the complainant's works," such express agreement covered the subject matter and excluded all possibility of any implied agreement that he would keep these matters secret after the date mentioned.

Likewise in the recent case of *Art Wire & Stamping Co.* v. *Johnson*, 7 N.J. Super, 173, 72 A. 2nd 523 (1950) the court refused to imply any obligation not to use or disclose trade secrets over and beyond the express provisions in a written contract, saying (72 A. 2d 525):

> "There is no room for the implication contended for by plaintiff. The contract covered the situation * * *. By making an express contract, the parties have set forth those terms which they deem sufficient for their protection. They cannot now claim greater rights outside of the contract".

This was the view of each of the courts below; and this clearly follows the law of California as the Court of Appeals demonstrates in its opinion on rehearing (R. 972).

Plaintiff can find no cases which dispute the foregoing propositions. His California authorities all deal with arrangements where there were no specific provisions concerning "secrecy" in the contract, and they are accordingly irrelevant.

(b) The Decision of the Court Below Properly Applies Controlling State Law on the Question of Defendant's Knowledge or Notice of Plaintiff's Rights.

In the courts below, plaintiff argued that the burden of proving lack of knowledge or notice was on defendant; and further argued that defendant was liable to plaintiff because defendant had both actual and constructive notice of plaintiff's rights.

But having failed in these contentions below, plaintiff now asserts that in a trade secret case plaintiff is entitled to recover *whether or not* defendant had any knowledge or notice of plaintiff's rights.

This proposition is unsupported by any court decision; and it is contrary to the law of New Jersey which plaintiff concedes to be controlling. Plaintiff's argument relies on the analogy of cases relating to chattels.

The early development of the field of the law pertaining to trade secrets found the courts of England and of this country frequently alluding to some "property right" in a trade secret. However, it was soon recognized that in most trade secret situations the governing principles were derived primarily from the law of trusts. This, for the reason that it was everywhere held that the secret "ceased to be treated as a 'property right' as soon as a third party, through his own effort or investigation or though any other fair means obtains knowledge of the other's secret." *Derenberg, Trade Mark Protection and Unfair Trading*, 1st Ed., 1936, p. 118.

That is, the gist of an action involving trade secrets is always a breach of contract or breach of trust of which a defendant is guilty, or in which such defendant has knowingly participated. Absent such bad faith or knowing participation in a breach of trust or confidence by a de-

fendant, a plaintiff will not be granted relief. See *Callman, Unfair Competition and Trade Marks,* 2d Ed., 1950, p. 680; *Nims, Unfair Competition and Trade Marks,* 4th Ed., 1947, Sec. 148. These general principles are of universal application, as indicated in the analysis of a large number of decisions from various jurisdictions contained in a recent annotation in 170 A.L.R. 449, at pp. 450-452, 467.

The nature of the interest protected has received similar analysis in New Jersey. Six New Jersey decisions holding that in a trade secret case, plaintiff must prove as a part of his case, that defendant acquired and used the secret with knowledge of plaintiff's rights, are cited and discussed in the opinion of the Court of Appeals (R. 961; 964-5). In addition we cite, for its clear statement of the rule, the case of *Pomeroy Ink Co.* v. *Pomeroy,* 77 N.J. Eq. 293, 78A.698, where the court said (78A.699):

> "• • • the discoverer or inventor still has a kind of property right in his invention or discovery, which he may transfer either absolutely or to a limited extent. Such transfer will pass to the vendee the title to the discovery, either absolute or limited, against the discoverer, but as against others than the vendor or transferor, the title, not being protected by exclusive patent laws, depends upon the right of the inventor or discoverer, or his grantee, to prevent the use of the invention or secret process by the person claiming to use them, and this right of prevention is based on special equities or rights against such person which disentitle him to the use. *If knowledge of the process or invention has come to such claimant fairly and honestly, and under circumstances which give the inventor no personal claim against him, the use will not be enjoined.*" (Emphasis ours).

The most graphic illustrations of the application of this rule are the cases of *Chadwick* v. *Covell,* 151 Mass. 190, 23 N.E. 1068 (1890), (opinion by Mr. Justice Holmes) and

Stewart v. *Hook*, 118 Ga. 445, 45 S.E. 369 (1903), in each of which the owner of a secret formula sold it first to plaintiff, and later to defendant, who in each case acquired the formula without any knowledge of the prior sale. In each case plaintiff was denied all relief against defendant. In the Massachusetts case Justice Holmes said (23 N.E. at p. 1068):

> "So far as the right to manufacture and sell the medicines go, the plaintiff's case may be disposed of in a few words. Dr. Spencer had no exclusive right to the use of his formulas. His only right was to prevent anyone from obtaining or using them through a breach of trust or contract. Anyone who came honestly to the knowledge of them could use them without Dr. Spencer's permission and against his will."

It thus appears clear that both generally and in New Jersey equitable considerations form the framework of the law of trade secrets, rather than the rigid rules relating to chattel property. Plaintiff, in now turning to the law of bailments of chattels to support its claim to relief, has seized upon a body of case and statutory authority which is wholly inapplicable to the present litigation.

That plaintiff's reliance upon the New Jersey decisions of *Vulcan Detinning Co.* v. *American Can Co.*, 75 N.J. Eq. 542 (1909), and *A. Hollander & Son, Inc.* v. *Imperial Fur Blending Corp., et al.*, 2 N.J. Rep. 235, 66 A. 2d 319 (1949), to support its attempted analogy to the law of bailments is without merit, is demonstrated by the opinion of the Court of Appeals on petition for rehearing (R. 975-77). Both cases involved unfaithful employees who organized the defendant corporations for the express purpose of exploiting their employer's trade secrets.

The other New Jersey decisions now cited by plaintiff are equally inapplicable and likewise involve corporations

formed for the express purpose of exploiting the stolen secrets.

Nor is petitioner supported by the cases cited from other jurisdictions, relied upon as "compatible with the New Jersey law."* In *Green* v. *Folgham*, 1 Sim. & St. 398, 406-407, 57 Eng. Rep. 159, 162-163 (1893), the defendant, Folgham, expressly admitted in his answer and in other writings that he had received the secret formula in question and held the same as an express trustee. The true tenor of the English decisions is revealed in an exhaustive analysis of the English case law in an article in 76 Solicitor's Journal at p. 403, which says:

> "The conclusion to which one is drawn, then, is that in default of proof of guilty knowledge (and in the absence of the protection afforded by patents or copyright) a trader is unable to prevent his rivals from using information wrongfully disclosed to them."

(c) The courts below correctly found that plaintiff's laches barred its claim, and this decision is in accord with Illinois law.

Defendant agreed to purchase the California carbonyl apparatus on June 26, 1940 (P. Ex. 17).

Plaintiff's two principal officers, Knox and Blocker, were notified at once (July 10, 1940) by a letter from the president of the California company, that:

> "• • • all of our assets were sold under bankruptcy proceedings on June 18th and the property acquired by the General Aniline Works of New York. • • • As

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* The fact that petitioner, while purporting to discuss a failure of the lower courts to apply "controlling state law" has found it necessary to rely upon the decisions of other jurisdictions, suggests the absence in the New Jersey opinions of real support for the unusual theory of liability now advanced.

you probably know, the General Aniline is controlled by the I. G. people and the latter's patents have been turned over to the General Aniline. It is their intention, I am informed, to use such of our equipment as they can fit into their plans, making a nominal amount of carbonyl initially, and then go into the powder business in a big way." (Def. Ex. 21; MR, R. 841; MSR, par. 22, R. 866)

Knox and Blocker received and discussed this letter (R. 219-20; R. 332, 221). They said they realized defendant was going to make iron carbonyl (R. 220), and use the California apparatus to do it. Yet they did nothing, and made no effort to notify or stop defendant.

The Master emphasized that the essential difference between the plaintiff's and the Farben technique, was the maximum pressure used, i.e., 1000 pounds per square inch in California with correspondingly high-low temperatures; 3,000 pounds per square inch in Germany with correspondingly higher temperatures (MR, R. 829). The court of appeals, after so observing said: "These relatively low pressures and temperatures are the chief factors of what is claimed by plaintiff as its secret process." (R. 956)

Knox was admittedly entirely familiar with the California apparatus defendant was buying. He testified he had "designed the plant totally myself". (R. 264). He made sketches of the plant for the fabricators, and personally checked and approved each blue print. (R. 215, 90). He spent a week inspecting the California plant after it was erected (R. 217). The working pressure limits were nameplated on each vessel (R. 71).

It is undisputed that the California apparatus was designed by Knox to have a maximum lawful operating pressure of 1,000 pounds per square inch. (R. 172, 434. Def. Ex. 47). It is also undisputed that the manufacture of iron carbonyl occurs in a closed cycle (or circuit) of

pipes and vessels, and that the *entire apparatus* has to be designed to stand the maximum pressure which may be used—in the case of the California plant 1,000 pounds per square inch.

Knox testified, but *only by deposition*. The courts could therefore judge his credibility as well as the master. Knox deposition stated:

> "I will say that I have known also that the I. G. Farben industry, the concern which I thought would make any information available to General Aniline, had a high pressure method of making carbonyl, and therefore, it never occurred to me that they were using a process we had developed." (R. 270).

Having designed the California apparatus, Knox knew its lawful pressure limits, and knew it could only be used by defendant at pressures less than 1,000 pounds per square inch "according to the strength of the equipment purchased". (R. 413, 406). But this he knew was what plaintiff now claims as its process. It is impossible for him to have really believed defendant would use the much higher Farben pressures in the low pressure California apparatus. Each of the courts below so concluded.

Neither Knox nor Blocker did anything upon learning of these facts. No one from the California company was questioned (R. 220, 221); no check was made (R. 221, 333). Knox and Blocker said nothing whatever to defendant, gave no warning, and indeed delayed another five years.

Defendant meantime proceeded (1) to pay the large balance due for the California apparatus; (2) to spend six months designing a new carbonyl plant incorporating much of the California apparatus; (3) to spend large amounts of money in constructing the carbonyl plant; and (4) to operate it for a number of years, building up a very large business in powdered iron, all without any notice

from plaintiff that defendant was perchance infringing some rights of plaintiff.

The courts below each concluded this conduct amounted to laches or acquiescence on plaintiff's part. The case cited by the court below, *Globe Ticket Company* v. *International Ticket Co.*, 90 N.J. 605, 104 Atl. 92, 95 (1918) is very similar. The court there held that for the possessor of a trade secret to sit by "with knowledge * * * of facts sufficient to charge it with knowledge that Titus was disclosing the alleged secret, and that Sun Ticket Company was using it * * *" would amount to *laches*, where the defendant had been permitted to build up a prosperious business before plaintiff asserted any claim. *McKey* v. *McKean*, 384 Ill. 112, 126 (1943); *Venner* v. *Chicago City Ry. Co.*, 236 Ill. 349, 365 (1908).

The fact that defendant's principal witness (Aickelin) died before plaintiff's claim was asserted is also a change of circumstance sufficient to bar plaintiff's claim because of *laches* and lack of diligence. *Benson* v. *Dempster*, 183 Ill. 297, p. 310 (1899).

Plaintiff argues that the two courts below erred in applying the Illinois law of *laches*, and that plaintiff was entitled to delay until it received "actual knowledge" defendant was using its process. The facts suggest plaintiff had actual knowledge in 1940 (See F.F. 37, 38 R. 936), but assuming *arguendo* that it did not, the decision of the courts below is none the less correct.

The Illinois courts hold that in fraud cases, the defrauded party attempting to excuse delay in bringing suit because of his want of knowledge, must "have used reasonable diligence to have informed himself of the facts," and will be barred if he has not done so. *Skrodski* v. *Sherman State Bank*, 348 Ill. 403; *Klee* v. *Chicago Trust Co.*, 365 Ill. 354, 358.

Plaintiff points out, however, that when the defendant accused of the fraud bears a confidential relationship to plaintiff, plaintiff is not required under the Illinois cases to use reasonable diligence, but may wait until the fraud is actually discovered, citing *Winger* v. *Chicago City Bank & Trust Co., et al.*, 325 Ill. App. 459 (1945), and other cases, in each of which the defendant or defendants owed a fiduciary duty to plaintiff. This proposition is not disputed, but it has no application to the present case since defendant has never been in any fiduciary relationship toward plaintiff. In fact it is not even claimed that defendant had *any* dealings with plaintiff prior to the actual filing of this suit.

(3) The moral question.

It may be, as plaintiff suggests, that courts today tend to enforce higher standards of commercial morality than formerly. We do not urge otherwise.

Defendant may however be entitled to question the sincerity of plaintiff's appeal to morals, in view of the fact that plaintiff tendered Birbeck as a witness hostile to it, without disclosing that Birbeck held a percentage interest in plaintiff's recovery, and was in fact a secret plaintiff. (R. 297; MSR, R. 866, par. 19, R. 849).

But apart from any such consideration, the short answer to plaintiff's final argument is that the two courts below have successively concluded that defendant was not a party to any breach of trust, but purchased some idle equipment and information as to its operation in good faith, for value, and in entire ignorance of any claims of plaintiff. The two courts below have further concluded as a matter of law, and as a separate ground for their decisions that no breach of trust was committed by anyone. This

is no case of stealing. Even the master said of Dr. Aickelin who directed the purchase for defendant: "* * * The Master does not wish to insinuate that Dr. Aickelin was not acting honorably throughout * * *" (MSR, par. 17, R. 866).

CONCLUSION.

It appears from the record that each of the courts below meticulously applied Rule 53(e)(2), and correctly analyzed and applied controlling State law. Petitioner has failed to establish any reason for the granting of certiorari under the principles announced in Rule 38 of this Court.

Since this Court does not grant certiorari "to review evidence and discuss specific facts" (*United States* v. *Johnston*, 268 U. S. 220), or to accord a defeated party another hearing on matters peculiar to a single controversy (*Magnum Import Co.* v. *Coty*, 262 U. S. 159, 163), respondent respectfully suggests that the petition for writ of certiorari be denied.

Respectfully submitted,

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In the Supreme Court of the United States

OCTOBER TERM, 1953

No. 623

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE & FILM CORPORATION,
Respondent.

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In the Supreme Court of the United States

OCTOBER TERM, 1953

No. 623

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE & FILM CORPORATION,
Respondent.

Reply Brief in Support of Petition for the Writ of Certiorari

Respondent cites not a single case from any jurisdiction in which any licensee or other bailee given the privilege "to use" any kind of property, trade secret or otherwise, was permitted to sell it to a third party and such third party was permitted to use such property without obligation to the bailor or licensor. This observation is true, no matter what fact inferences might have been drawn from this record.

This consideration alone shows that this case is a most unusual one—it is the first one of its kind any place. The unusual result is accountable only through failure to follow the specific mandates of Rule 53 (e)(2) and U.S. Code, Title 28, Section 1652, as asserted in the petition.

Counsel found in the mass of conflicting testimony enough to support an argument only by entirely ignoring the evidence and testimony favorable to the petitioner and by attacking the character of petitioner's witnesses when the truth of their testimony had been sustained by the special master, who was the trier of the facts. Respondent contends in its conclusion that there are matters of evidence and specific facts (response, page 27). If this be true, then by the same token they were also issues of evidence and specific facts before the District Court and the Court of Appeals. The findings of the master, therefore, should have been afforded credit by such intermediate reviewing courts. As in *United States v. Johnston* (1925) 268 U.S. 220 (Response, page 27), the decision of the Court of Appeals should be reversed and judgment should be entered pursuant to the recommendations of the trier of the facts.

Respondent's repetitive references to "trial court" and "trial judge" in speaking of the District Court are eloquent recognition that the District Court did not act in the manner of an intermediate reviewing court in this case.

Respondent does not show, or even suggest, that there is not ample evidence to support the findings of the master. Indeed, respondent made no effort whatsoever to show that the findings of fact of the special master were unsupported by the evidence.

At this stage of the proceeding, it would be idle to attack the assertions of fact set forth in respondent's statement. In this case, as is usual, there is evidence on both sides of all

the contested issues. The report of the master sets forth the evidence warranting inferences contrary to those set forth in respondent's statement. A detailed discussion would divert one from the issues presented on the petition. Petitioner therefore directs its attention to the reasons urged by it for granting the writ and points out that respondent has not weakened the soundness of petitioner's contentions.

1. The intermediate reviewing courts did in fact fail to follow Rule 53 (e) (2)

(Petition, pages 11-16)
(Response, pages 10-16)

Respondent does not dispute petitioner's introductory argument nor the holdings of the cases which petitioner cites. Respondent reaches a contrary conclusion by engrafting exceptions upon Rule 53 (e) (2)—exceptions which have not been placed there by this Court.

Respondent urges, in effect, that Rule 53 (e) (2) is not applicable

(a) to inferences and deductions drawn from uncontradicted oral and documentary evidence (Response, page 10);

(b) to testimony introduced by way of depositions (Response, page 11); and

(c) to testimony of interested witnesses (Response, page 11).

The *first* reply is that this Court in drafting Rule 53(e) (2) did not place upon it the strictures urged by respondent. The express limitation of Rule 52 (a) that "due regard shall be given to the opportunity of the trial court to judge the credibility of the witnesses" was not even carried over into Rule 53 (e) (2).

The *second* reply is that as to each of these points, this Court has spoken with unequivocal language to the effect

that such considerations do not warrant a re-evaluation of the weight of the evidence on review.

The inferences to be drawn from the evidence are within the duties of the Master. *Anderson et al. v. Mt. Clemens Pottery Co.* (1946) 328 U.S. 680 (cited petition, page 13, this feature being ignored in the Response, page 16). Later, in *Ellis v. Union Pacific R. Co.* (1947) 329 U.S. 648, in speaking of a jury* instead of a master, this Court held, page 653, that the inferences to be drawn from uncontroverted as well as controverted facts, are questions for the fact finder. And in *Hutchins et al. v. Munn,* (1908) 209 U.S. 246, this Court held, page 250, that the theory that a reviewing court is at liberty to consider the evidence *de novo,* weigh and balance it, and draw such inferences and conclusions as seem proper, overlooks the proper function of an auditor.

The facts to be deduced from a mass of documentary evidence likewise form subjects which are peculiarly proper for the consideration of the fact finder. *Etting v. Bank of the United States* (1826) 11 Wheat. (24 U.S.) 59, 76, and *Rankin v. Fidelity Insurance Trust & Safe Deposit Company* (1903) 189 U.S. 242, 252.

Deposition testimony also has been held to tender issues entirely of fact and depending upon the credibility of witnesses. *Newell et al. v. Norton* (1866) 3 Wall. (70 U.S.) 257, 267.

And, finally, even if Birbeck were an interested witness, this does not deprive the findings of validity. *Story Parchment Co. v. Paterson Parchment Paper Co. et al.* (1931) 282 U.S. 555, 567.

Even if it be assumed that the Court of Appeals and the District Court were in as good a position to find the facts

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*The report of a master is entitled to the full weight of a verdict. *Pennsylvania v. The Wheeling & Belmont Bridge Company* (1851) 13 How. (54 U.S.) 519, 568.

from the written documents and the depositions as the special master was*, that would not appear to be the question. The rules did not commit that function to the District Court or to the Court of Appeals, but required them to accept his findings "unless clearly erroneous". This Court stated in *United States v. Yellow Cab Company* (1949) 338 U.S. 338, 342:

> "* * * a choice between two permissible views of the weight of evidence is not 'clearly erroneous' ".

2(a). The Court of Appeals did not apply California law on the confidential relationship issue

(Petition, pages 17-20)
(Response, pages 16-18)

The petition shows that regardless of what the facts are, a license to use i.e., a bailment, creates a confidential relationship as a matter of law in the state of California (petition, pages 17-19). Respondent does not answer this argument. Its force, therefore, is conceded.

Respondent finds worthy of mention four cases only—*Martin v. City of Port Huron* (C.C.A. 6, 1940) 111 F.(2d) 759; *Walker v. Brown* (1862) 28 Ill. 378; *Taylor Iron & Steel Co. v. Nichols et al.* (1908) 73 N.J. Eq. 684, and *Art Wire & Stamping Co. v. Johnson* (1950) 7 N.J. Super. 173.

None of these cases purports to announce the law of California. Respondent sidles in the California cases cited by the Court of Appeals (Response, page 18) although rehearing was denied without argument.

None of the authorities cited by the respondent, either from Illinois or from New Jersey, holds that one having the license "to use" any kind of property must contain a nega-

*The master would seem to be in a better position to integrate the written word with the general conduct of the parties as evidenced in part by the demeanor of the witnesses who did testify orally.

tive covenant preventing the licensee from giving the licensed property away or from selling it.

Moreover, whatever doubts may have existed on December 7, 1953, the date when rehearing was denied (R. 979), such doubts were put at rest on March 1, 1954, in the case of *Brogdex Company v. Walcott* (1954) 123 ACA 644. In that case there was an express written agreement, under the terms of which plaintiff licensed defendants to distribute a wax process for the treatment of fruits and vegetables. The Court quoted the following principle, page 650, with approval:

> "In this, as in every contract, there is the implied covenant of good faith and fair dealing: that neither party will do anything that would result in injuring or destroying the right of the other to enjoy the fruits of the agreement."

In its decision, the Court relied upon *Brawley v. Crosby, etc. Foundation, Inc.* (1946) 73 Cal. App. (2nd) 103 and *Matzen v. Horwitz* (1951) 102 Cal. App. (2nd) 884. All three of these cases are in the nature of license cases. In the *Matzen* case, the same argument as that urged here was made—that defendant had no obligation to the plaintiff because there was an absence in the contract of an express negative covenant restricting the defendant from doing what he did. The Court, in answer to this argument, said, page 892:

> "It is not necessary that such a covenant be spelled out in order to insure that one party will not take advantage of a situation such as that presented in this action."

For evidentiary support respondent says, page 16, that by the express terms of the agreement, the "secret processes" which California is licensed to use are those ob-

tained from and under Johnsen. This is not so. The contract recites that the rights which were obtained from Johnsen were "formulae, as well as all other rights obtained by Ferroline from and under William H. Johnsen" (Plaintiff's Exhibit 9, Plaintiff's Book of Exhibits, page 22).

The mere fact that the words "secret processes" precede the word "formulae" does not tie the "secret processes" to the Johnsen contract. No part of this contract states that "secret processes" were obtained by Ferroline from and under William H. Johnsen. No word in the record states that Ferroline obtained any "secret processes" from and under Johnsen. No word in this record states that any "secret processes", other than those involved in this litigation, were ever disclosed to Ferroline Corporation of California by the petitioner in this case.

Next respondent says, page 16, that "Johnsen had secret processes or formulae for making an anti-knock". The fact is that Johnsen had only formulae for making the anti-knock compound. Respondent admitted that Johnsen "had no rights to any process" (R. 848).

Respondent next asserts page 17 "contrary to plaintiff's assertion, the Hamilton agreement does not refer to the Bradley Murray agreement." The fact is as petitioner pointed out—the contract with Bradley Murray was "annexed to and made a part of the license" (Petition, page 5). The Bradley Murray contract comprises the last three pages of Plaintiff's Exhibit No. 9. Plaintiff's Exhibit 9 occupies pages 21 to 46 of the Book of Exhibits and the Bradley Murray contract occupies pages 44 to 46 of the Book of Exhibits. And in Paragraph 10 of Plaintiff's Exhibit 9 petitioner agreed to hold Hamilton harmless from royalties due Bradley Murray and to give Hamilton the benefit of any reductions in the royalties (Plaintiff's Exhibit Book, page 25).

Respondent claims that there is an absence of any statements that the California parties were told that the carbonyl process was to be kept secret (Response, page 17). The fact is, as pointed out in the petition, page 5, that Knox testified that he told Given "many times" that Given was to maintain secrecy of whatever was disclosed (R. 255) and that Given testified that all of the California employees were told that it was a secret process (R. 84).

Respondent is also in error as to the scope of the deletion of paragraph 7 of the contract (page 17). The contract originally provided that the petitioner reserved an option to cancel all rights granted under the terms of the contract in the event that petitioner should sell all of its assets (Plaintiff's exhibit book, pages 24-25). If this were done, then petitioner was to pay Hamilton a certain sum of money and upon tender thereof, "the rights of Hamilton to use the processes and data for the manufacture of the products covered by this contract shall immediately cease and expire, and thereafter the said Hamilton, or his assigns, specifically obligates himself not to engage in the manufacture of the products covered by this contract and not to thereafter use the secret formulae or processes either directly or indirectly for the manufacture of products covered by this contract." (Plaintiff's exhibit book, page 25).

When petitioner gave up its option to purchase the plant of Ferroline Corporation of California, there was no longer any need to continue in force a provision as to what Hamilton should do in the event Ferroline exercised its option. The stricken portion was not intended by the parties nor did it purport to cover the situation here at bar. Paragraph 16 of the contract was intended to cover the instant situation and it provided that Hamilton could assign or sell his rights—but *only* if the sale were subject to the rights

and privileges of Ferroline and if Ferroline was given thirty days' notice (Petition, page 4, footnote 5, Plaintiff's Exhibit Book, page 27).

The instant sale was a breach of covenant 16. The breach deprived petitioner of notice of the sale and resulted in a loss of $1.50 per standard gallon upon the production of all iron penta carbonyl made in pursuance of the information, rights, data and services licensed to Hamilton.

The showing of respondent therefore does not warrant a determination that the special master was clearly erroneous in concluding that there was a fiduciary relationship between the parties and in concluding that there was an implied obligation of secrecy.

2(b). The opinion is in direct conflict with controlling state law on the question of notice

(Petition, pages 20-21)
(Response, pages 19-22)

Respondent states that in the courts below plaintiff argued that the burden of proving lack of knowledge or notice was on defendant (Response, page 19). This is not true. Petitioner argued that defendant had the burden of proof to show that it was a bona fide purchaser for value, which defense defendant pleaded affirmatively (Answer, paragraph 37, R. 41). In support of this proposition, plaintiff cited *Boone et al. v. Chiles et al.* (1836) 10 Peters (35 U.S.) 177 (See master's draft report, R. 835-836). But be that as it may, respondent cites no decision whatsoever holding that plaintiff must prove by direct testimony that defendant acquired and used the secret with knowledge of plaintiff's rights.

The only cases deciding the notice issue, *Vulcan Detinning Co. v. American Can Co.* (1909) 75 N.J. Eq. 542 and *Oscar Barnett Foundry Co. v. Iron Works Co.* (1913) 81 N.J. Eq.

412 (petition, pages 20-21), both squarely hold that filing the complaint is sufficient notice to make continued use thereafter wrongful.

In this regard, the New Jersey trade secret law is quite analogous to the federal patent laws. U. S. Code, Title 35, Section 287 provides that filing of an action for infringement shall constitute sufficient notice to maintain an infringement action.

Respondent correctly points out that the *Vulcan* case was not a bailment (brief, page 21). It was a case in which the fiduciary relationship was that of master and servant, as distinguished from licensor and licensee, or bailor and bailee.

The fact that the present situation is that of licensor and licensee strengthens rather than detracts from the *Vulcan* decision. If the *Vulcan* decision is applicable to a master and servant case, it is doubly applicable in a bailor and bailee case. In the latter situation, not even a bone fide purchaser is protected.

The case of *Pomeroy Ink Co. v. Pomeroy* 77 N.J. Eq. 293 (response, page 20) does not purport to limit the effect of the *Vulcan* case. The language concerning third party users is a pure dictum, the case not being related to that issue.

The cases of *Chadwick v. Covell* (1890) 151 Mass. 190 and *Stewart v. Hook* (1903) 118 Ga. 445 (Response pages 20-21) were both decided prior to the *Vulcan* case. The bona fide purchaser theory of those cases was not adopted in the *Vulcan* case or in any other New Jersey decision which has come to petitioner's attention. Further neither case involves any kind of a fiduciary relationship case, both cases being vendor and purchaser cases.

The point is that respondent cites no case from New Jersey or from any other place permitting any third party to

purchase a trade secret from a licensee and then use it to the licensor's detriment.

Respondent presents no logical reason authorizing the Court of Appeals to refuse to follow the square holding of the *Vulcan* case. Text book authorities and citations from other states are no substitute for compliance with United States Code, Title 28, Section 1652.

2(c). The decision of the Court of Appeals is in square conflict with Illinois law

(Petition, pages 22-23)
(Response, pages 22-26)

As in the case of the prior issues, respondent continues to draw fact inferences contrary those drawn by the master.

Respondent urges that Knox was not to be believed in his statement that it never occurred to him that respondent was using the process petitioner had developed (R. 270). The *coup de grace* is stated to reside in the fact that Knox knew that the California apparatus was designed for a pressure of 1000 pounds per square inch (respondent's brief, page 24). The record, to the contrary, does not require this censure of Knox's testimony. *First,* the letter in question referred to "their plans": (Defendant's exhibit 21, respondent's brief, page 23) and silently conceals the disclosure of the process developed by petitioner. *Second,* although the equipment was designed for a pressure of 1000 pounds, the record shows that the equipment could be used up to 4500 pounds without bursting (R. 173), which would be a safety factor of at least 1500 pounds over the German operating pressure. *Third,* the letter did not state that respondent was purchasing a plant as such, but stated merely that respondent was to use "such of our equipment as they can fit into their plans" (Defendant's Exhibit 21, response, page 23). It is undisputed that the production and storage of the carbon

monoxide used in the process and that the step of reducing the iron with hydrogen all take place at a moderate pressure in either operation. Thus the ground of impossibility for belief of Knox's testimony is logically unsound. There is no presumption that Knox testified falsely.

Respondent contends that it did all of the acts performed by it "without any notice from plaintiff that defendant was perchance infringing some rights of plaintiff" (response, pages 24-25). The master specifically found that respondent did, in fact, have notice of plaintiff's rights from other sources. Indeed, respondent employed Margaret Mary Flannery on January 1, 1941 (R. 350) and set her to work immediately to compile the series of prior art articles introduced in evidence in this case (R. 353). Respondent thus began to prepare what it thought to be its best defense long before petitioner had any knowledge of the wrong. Respondent would not have done so had it not been aware of the fact that it might be found out and suit commenced.

Turning to the legal issues, respondent concedes that the Illinois law is correctly stated in the petition (Response, page 26). Respondent seeks to avoid the application of petitioner's authorities on the ground that respondent itself was not the fiduciary. The Court of Appeals did not so hold, but it disputed the rule itself (R. 978). The fallacy in this reasoning is that respondent claims title only through a breach of faith of Birbeck and Given, both of whom were fiduciaries. Birbeck and Given had the duty to make full disclosure to petitioner, irrespective of the exact nature of the breach of faith.

The Illinois cases do not recognize the distinction respondent urges. In *Winger et al. v. Chicago City Bank & Trust Company et al.* (1945) 325 Ill. App. 459 (petition, page 22), the unfaithful fiduciaries were Arthur T. Sawyer

and others, and the rule was applied as against a third party, one James D. Stice, who claimed to be a *bona fide* purchaser for value. In *Pelcak v. Bartos* (1946) 328 Ill. App. 435 (petition, page 23), the unfaithful fiduciary was Vaclav Cipra and the rule was applied against a third party partnership of which Cipra was merely a member, one Vick & Co. In *Penn v. Folger* (1899) 182 Ill. 76 (petition, page 23) George W. Brown was the defaulting fiduciary and the rule was applied as against the individual defendants who had been business associates of Brown.

Examples of other cases in which the rule was applied as against third party beneficiaries of a breach of fiduciary duty include *Ohlendorf v. Bennett, et al.* (1926) 241 Ill. App. 537, at page 565; *State Bank and Trust Company, et al. v. Commercial Trust and Savings Bank, et al.* (1939) 300 Ill. App. 435 at page 447; and *Myers et al. v. Canton National Bank of Canton, Illinois* (C.C.A. 7, 1940) 109 F.(2d) 31, at page 33.

Even if we range beyond the law of Illinois to the case of *Globe Ticket Company v. International Ticket Co.* (1918) 90 N.J. Eq. 605, 104 Atl. 92 (response, page 25), the refusal to accept the master's findings is unjustifiable. The most significant factor is that in the *Globe* case the finder of the facts found that the plaintiff was guilty of *laches*, whereas in the case at bar the finder of the facts found that plaintiff was not guilty. Since *laches* is a fact issue, that distinction should dispose of the *Globe* case. But even on the inferences to be drawn from the evidence, there is no analogy between the *Globe* case and the case at bar. In the *Globe* case, there were compelling circumstances in favor of the defendant not present in the case at bar. In that case the fiduciary, one Titus, completed the machine in question for Sun Ticket Co., a third person, in 1913. In 1914 Sun began to use the ma-

chine. The tickets printed on the machine were sold and they disclosed that they had been made on a machine like that of the plaintiff. In February and March of 1915 plaintiff learned that the fiduciary Titus was offering to build similar machines for others. In June 1915 plaintiff and Sun had a conference in which they discussed the actions of Titus. The court observed that whatever information complainant had, it had by June 15. After plaintiff was fully advised of the facts, then Sun transferred the business to International Ticket Co. which became a bona fide purchaser for value of the machines. This effected a complete change in conditions, manifestly based in part upon the plaintiff's failure to act earlier. It was after this change in conditions that the complaint was filed.

In the case at bar, petitioner did not have knowledge that respondent was using its processes until July or August of 1945. Suit was filed within a month or two. This is not *laches*.

3. The moral question

(Petition, pages 23-25)
(Response, pages 26-27)

Again the respondent urges that there was something reprehensible in the conduct of petitioner in relying upon the testimony of Birbeck (response, page 26). The fact is that there is no proof that Hamilton, who made the promise to Birbeck, had ever been promised anything by plaintiff (R. 954); that the District Court and the Court of Appeals both held that no corrupt motive on the part of the plaintiff was shown (R. 939, R. 954); and that the master who saw and heard both Birbeck and Vom Rath testify believed Birbeck (R. 863-864).

Respondent's second point is that because the master did not wish to insinuate that Dr. Aickelin was not acting honorably, that there was no breach of trust and no case of

stealing (response, pages 26-27). Of a similar case in which a bailee of hides sold them to a negligent third party, the Supreme Court of Illinois, in *Fawcett, Isham & Co. v. Osborn, Adams & Co.* (1863) 32 Ill. 411, page 427, stated that the defendants obtained possession through

> "* * * a breach of trust, amounting almost, if not quite, to larceny, on the strength of a naked possession in the vendor without any other *indicium* of title whatever * * *".

Conclusion

Petitioner submits respectfully that the writ of certiorari should be granted. The fact that respondent found it necessary to discuss only the evidence supporting its views and to ignore the evidence supporting the master's findings proves that there was a conflict of evidence requiring adherence to the report of the master. The fact that respondent has found no case in which a licensee permitted to use any kind of property was authorized to dispose of it to a third party most assuredly proves that the special master's conclusions of law were soundly premised.

Petitioner does not ask this Court to review facts and evidence. On review this Court need not itself determine any factual issues, because respondent does not even assert that there was no evidence to support the master's findings in the first instance. Petitioner asks this Court only to require that lower reviewing courts obey the mandates of Rule 53 (e)(2) and U. S. Code, Title 28, Section 1652.

Respectfully submitted,

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MAY 10 1954
HAROLD B. WILLEY, C

In the Supreme Court
OF THE
United States

OCTOBER TERM, 1953

No. 623

FERROLINE CORPORATION, *Petitioner,*

vs.

GENERAL ANILINE & FILM CORPORATION, *Respondent.*

PETITION FOR REHEARING OF THE ORDER DENYING THE WRIT OF CERTIORARI.

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No. 623

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE & FILM CORPORATION,
Respondent.

PETITION FOR REHEARING OF THE ORDER DENYING THE WRIT OF CERTIORARI.

To the Honorable Earl Warren, Chief Justice of the United States, and to the Honorable Associate Justices of the Supreme Court of the United States:

Most respectfully we petition this Court for a rehearing of its order denying the petition for the writ of certiorari herein. Most earnestly we urge that manifest injustice results from the decision below and that substantial grounds exist for the granting of the writ which were not previously presented.

In this case, as the Court of Appeals held (R. 961-962), petitioner after "many months and much labor" developed "a successful Carbonyl process, involving complicated chemical and mechanical problems," by which it produced iron penta carbonyl, a rare and useful product.

As the Court of Appeals held (R. 962, 963, 968), this "valid process" was a "trade secret," enforceable as such.

As the Court of Appeals held (R. 963, 968), the secrecy required to preserve petitioner's rights to this trade secret was maintained at all times.

Petitioner entered into a license agreement, granting to the licensee the right to use this trade secret and related secret formulae. This agreement provided for the payment of a royalty on each gallon of iron carbonyl made by the use of the trade secret.

Because there was no express restriction in this license agreement against disclosure by the licensee of the trade secret to other persons, the Court of Appeals held that the licensee was free to disclose it to third persons!

This ruling, so far as our research discloses, is without precedent and in conflict with every relevant decision.

The license contract provided (Pl. Bk. of Exhs., pp. 21, 22-27):

> "• • • Ferroline does hereby license the said Hamilton to use all of the rights, interests, information, data, secret processes, formulae, as well as all other rights obtained by Ferroline from and under William H. Johnson [the formulae], *as well as all information, data, discoveries, improvements, made,*

had or ascertained by Ferroline in its experiments, exploitation and perfecting the process of manufacturing Iron Penta Carbonyl under the said contract and otherwise [the trade secret]. * * *

* * * * * * *

(1) Hamilton shall have the exclusive right to manufacture, sell, distribute and use, free from interference from Ferroline within the bounds of Washington, Oregon, California, Idaho, Utah and Nevada, and not elsewhere, Iron Penta Carbonyl, its derivatives, byproducts and compositions * * *.

* * * * * * *

(6) Hamilton agrees that upon the production of Iron Penta Carbonyl to pay to Ferroline One Dollar and Fifty Cents ($1.50) per standard gallon upon all such product produced * * *.

* * * * * * *

(16) Hamilton * * * shall have the right at any time to assign or sell its rights under this contract, * * * subject to the rights and privileges of Ferroline hereunder * * *" (emphasis added).

When this agreement was executed, both parties knew that the process was secret and valuable as such. The Special Master (R. 830, 853, 868) and the District Court (R. 883-884, 926) both concurred that, until the disclosure to respondent, "plaintiff and (later) Ferroline Corporation of California [the licensee] took steps to keep the carbonyl process secret," and that "all persons employed at each plant were instructed to maintain absolute secrecy concerning everything they learned." The Court of Appeals concurred that the process was maintained in secrecy (R. 963, 968). The license provided that a royalty would be paid on each gallon of carbonyl manufactured

by the use of the secret process. There was a prohibition against any sale except "subject to the rights and privileges of Ferroline hereunder". Petitioner reserved to itself the right to use the process (or license others to use it) everywhere except in the six western states.

Indisputably the whole value of the process to the petitioner, the whole value of its right to receive royalties (its only consideration under the license), the whole value of the reserved right to use the process itself, lay in maintaining the secrecy of the process.

Yet the Court of Appeals held that when the licensee disclosed the secret process to respondent (a third person), the licensee violated no right of petitioner.

In other words, although the most valuable disclosure under the license was the process for making iron penta carbonyl; although it was in fact a secret process; although it was known by the licensee to be a secret process; although its secrecy was maintained both by plaintiff and licensee; although the royalty provided in the license was fixed upon carbonyl manufactured by the secret process; although the licensee agreed not to transfer any rights under the license except subject to the rights of petitioner; although petitioner reserved to itself the right to use the process everywhere but in the western states—*yet*, because the parties used the word "secret" in the contract in referring to the formulae, and did not use the word "secret" in referring to the process, and because the contract contained no express restriction against disclosure, the Court of Appeals held that the licensee had an unrestricted right to destroy the entire

value of the process and of the license contract by disclosing the process to third persons.*

This is not the law.

The foregoing is the crucial issue in this case. We emphasize that we are not now speaking of any duty or liability of third persons to whom disclosure is made. We are speaking solely of the ruling of the court below on the question of the licensee's duty to the licensor (petitioner). On this question, as pointed out above, this ruling conflicts with every pertinent decision of which we have knowledge.

In the first place it is settled that:

> "The secret process may be the subject of confidential communication and of sale or license to use * * *." (*Dr. Miles Medical Co. v. Park & Sons Co.* (1911) 220 U.S. 373, 402).

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*The Court of Appeals read significance into the fact that the parties, by supplemental agreement, deleted paragraph 7 of the license agreement (R. 963, 972). This paragraph provided (Pl. Bk. of Exhs., pp. 24-25) that the licensor, after one year, could sell its entire business, including its secret processes, free of any rights of the licensee, but in that event the licensor would be required to pay the licensee double the amount of his investment up to $100,000. The paragraph further provided that in the event the licensor thus recaptured its rights, the licensee would not "thereafter use the secret formulae and processes." The deletion of this clause, nine months after the original license agreement was signed (Pl. Bk. of Exhs., pp. 21, 55) was for the sole purpose, expressed in the modification agreement itself, to effect "a modification of said [license] contract whereby the option reserved therein * * * to cancel all rights granted thereunder in the event of sale" by the licensor should be eliminated (Pl. Bk. of Exhs., p. 55). The modification agreement expressly ratified and confirmed the original agreement in all other respects (Pl. Bk. of Exhs., p. 57). Paragraph 7 did not define, affirmatively or negatively, the right of the licensee to disclose the trade secrets to third parties during the term of the license and its deletion could have no effect upon these rights.

In the second place the license of a secret process creates a confidential or fiduciary relationship between the parties.

As Justice Cardozo said in considering a license of a copyrighted play and an uncopyrighted title to the play:

> "* * * under the settled principles applicable to fiduciary relations, Herndon [the licensee], in accepting a license with royalties measured by receipts, became chargeable as a trustee * * *." (*Underhill v. Schenck* (1924) 238 N.Y. 7, 143 N.E. 773, 776).

The identical rule is applied to an oral license of unpatented mechanical improvements even though the license did not call the information a secret and did not bind the licensee to secrecy. This was held in *Jones v. Ulrich* (1950) 342 Ill.App. 16, 95 N.E.2d 113, 117:

> "The complaint alleges an agreement between plaintiff and defendant, the sole purpose of which was to provide for continuing manufacture and sale of the spreader with ensuing royalties to be paid the plaintiff. Such an agreement in itself implies a confidential relationship because without such confidence, such an agreement in practicality would be a nullity."

And the fact that the trade-secrets licensed constitute but a part of the licensed properties does not alter the rule. *E. L. Bruce Co. v. Bradley Lumber Co.* (W.D.Ark. 1948) 79 F.Supp. 176, involved patent rights *and* a trade secret. The parties entered into a license of the patent rights but none as to the trade secret. The licensor disclosed the trade secret to the licensee during the life of the patent license. The patent license was cancelled and

the licensee thereafter claimed the right to use the secrets without payment of royalties. At page 189, the court said:

> "The operations within the plaintiff's plant at Memphis were carefully guarded and were not revealed to any one except those entitled thereto under the terms of the license agreements. ~~They were revealed to the defendant because of the license agreements.~~ They were revealed to the defendant because of the license agreement and it is difficult to perceive of a more confidential relationship than the one existing between the parties under which the defendant accepted, adopted and put in use the trade secrets."

Finally it is immaterial that a trade-secrets license, even if written, does not contain a secrecy provision. In *Consolidated Boiler Corp. v. Bogue Electric Co.* (1948) 141 N.J.Eq. 550, 58 Atl.2d 759, an express written agreement authorized the licensee to make certain boilers embodying both patented and unpatented ideas upon payment of a royalty. The contract contained specific provisions concerning secrecy, but the court pointed out that relief would be granted even if the contract were silent. At 58 Atl.2d 769-770, 772, the court said:

> "Even if the promise had not been given, the disclosure of it to the defendant was one in confidence and for the very limited purpose of having the defendant manufacture the boiler for complainants alone. Bogue and its president were fiduciaries of that secret and were not free to disclose it or to utilize it for their own advantage. Bogue's covenant not to manufacture that boiler for others was merely de-

claratory of the legal disability that it was under, not to utilize for itself the trade secret of another, confidentially entrusted.

* * * * * * *

* * * Even if the contract had not been entered into, the defendants would not be permitted to continue to manufacture the Bogue boiler, the idea and plans for which were the special property of the complainants, confidentially entrusted to Bogue and its president [citing authorities]. If the contract were absent, this Court would nonetheless grant the relief of an injunction against future manufacture and an accounting for past wrongs."

The foregoing case was followed in *Thiberg v. Bach* (D.N.J. 1952) 107 F.Supp. 639 (affirmed 203 F.2d 956), where the court said (p. 642):

"It is elementary that the absence of any express covenant between the parties does not affect the doctrine of trade secrecy if it should be established that such did in fact exist in this case."

The law of California (the place of performance of the contract) is controlling on this issue. That law accords with the above decisions and is contrary to the decision of the court below. Facts exactly identical with those in the case at bar have not arisen in California, but similar cases make it clear that the foregoing decisions declare the law of that state.

In *Brogdex Co. v. Walcott* (March 1, 1954) 123 A.C.A. 644 (hearing denied by the Supreme Court of California, April 28, 1954), the plaintiff licensed the two defendants to distribute a patented wax process for treating fruits

and vegetables and the defendants agreed to pay royalties to the plaintiff. The license provided for cancellation if "one or the other" of defendants did not devote his best efforts to the enterprise. A controversy arose when one of the defendants competed with plaintiff but the other defendant continued to devote his best efforts. The court, holding that the contract should be construed to require the best efforts of both of the defendants, held, as did Justice Cardozo in connection with the license contract involved in *Underhill v. Schenck*, supra, p. 6 (123 A.C.A. 650):

> "'• • • in every contract, there is the implied covenant of good faith and fair dealing; that neither party will do anything that would result in injuring or destroying the right of the other to enjoy the fruits of the agreement."

In *Universal Sales Corp. v. Cal. Etc. Mfg. Co.* (1942) 20 Cal.2d 751, 128 P.2d 665, plaintiff and defendant entered into a written contract under which defendant agreed to develop a machine for plaintiff, to obtain patents thereon and to give plaintiff a 20 per cent interest in all patents and improvements. Defendant made a different machine and endeavored to retain the patent thereon for itself on the ground that it was not within the express terms of the written agreement. The court overruled this contention on the ground, among others, that (p. 771):

> "In every contract there is an implied covenant that neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract,

which means that in every contract there exists an implied covenant of good faith and fair dealing."

In accord are:

Brawley v. Crosby Etc. Foundation, Inc. (1946) 73 Cal.App.2d 103, 112, 166 P.2d 392; and

Matzen v. Horwitz (1951) 102 Cal.App.2d 884, 892, 228 P.2d 841.

What has been said makes clear, we submit, that the Court of Appeals in this case has decided an important question of local law in a way probably in conflict with applicable local decisions (Rule 38 of the Rules of this Court). However, we emphasize that the same error exists if it be deemed that the decisions of California do not reach this exact case. In that event (i.e., in the event that the point is undecided in the foreign state), the conflict of laws rule of Illinois (the state of the forum) declares that the law of the foreign state shall be deemed the same as the law of Illinois (*People v. Schaedel* (1930) 340 Ill. 560, 564, 173 N.E. 172, 174). If this rule applies, then *Jones v. Ulrich* (1950) 342 Ill.App. 16, 95 N.E.2d 113, supra, p. 6, controls and the decision of the Court of Appeals is still in conflict with applicable local decisions.

THE ISSUES OF NOTICE AND LACHES.

Up to this point we have spoken only of the duty of the licensee to its licensor. We have shown, we respectfully submit, that the ruling by the Court of Appeals that the licensee was free to disclose ~~to~~ the secret process is

untenable, is in conflict with applicable local decisions, and is in conflict with all known decisions in other jurisdictions.

If this is true, then the remaining two grounds upon which the Court of Appeals rested its decision no longer support the judgment and do not furnish independent grounds for the denial of this petition. These rulings are:

(1) That respondent, the third person to whom the secret was disclosed, was not apprised at the time of disclosure that the process in fact was secret or that the licensee was under any restriction against disclosure—in other words, that respondent acted in good faith notwithstanding the obligations existing between petitioner and its licensee (R. 964-967, 968, 973-978).

(2) That petitioner in any event was guilty of laches in asserting its claims against respondent (R. 967-968, 978-979).

On the notice issue, the decision of the court below turned upon its ruling that there was no breach of a fiduciary relationship in the disclosure by the licensee. The court conceded that even if a third party acts innocently in receiving a disclosure of a trade secret in violation of a fiduciary relationship, while he cannot be held liable for his use of the secret until after actual notice, he is under an obligation to stop its use or account therefor after such actual notice. The Court of Appeals conceded that this is the law of New Jersey, the applicable local law on the notice question (R. 975-976, 978).

Accord:

Vulcan Detinning Co. v. American Can Co. (1909) 75 N.J.Eq. 542, 73 A. 603;

Oscar Barnett Foundry Co. v. Ironworks Co. (1913) 81 N.J.Eq. 412, 415, 87 A. 515, 516 (aff'd per curiam, 81 N.J.Eq. 515, 516, 87 A. 516).

The ruling of the Court of Appeals on laches also fails if its decision that no confidential relationship existed between the licensor and licensee is erroneous. The rule of Illinois, the state of the forum, is controlling. That rule is:

> "Our courts hold that the failure to use diligence is excused where there is a relation of trust and confidence rendering it the duty of the party committing fraud to disclose the true facts to the person whose trust and confidence has been abused. In such cases the statute of limitations or the beginning of the running of time upon which laches can be predicated only arises when the fraud is discovered" (*Winger v. Chicago City Bank & Trust Co.* (1945) 325 Ill.App. 459, 487, 60 N.E.2d 560, 572, affirmed, on this point, (1946) 394 Ill. 94, 118, 67 N.E.2d 265).

Accord:

Auer v. Wm. Meyer Co. (1944) 322 Ill.App. 244, 262, 54 N.E.2d 394; and

Pelcak v. Bartos (1946) 328 Ill.App. 435, 446, 66 N.E.2d 465.*

*The *Winger*, *Auer* and *Pelcak* cases cited in the text were all decided after the *Skordski* and *Klee* cases upon which the court relied for its decision at R. 978. The *Winger* and *Pelcak* cases held the rule applicable in cases involving third parties not themselves in a fiduciary relationship to the plaintiff.

The Court of Appeals in the case at bar held petitioner guilty of laches because it had failed to exercise a duty of inquiry in discovering the disclosure and use of the secret process by its licensee to respondent (R. 967). This due diligence, however, was not required *if* a confidential relationship existed between petitioner and its licensee.

CONCLUSION.

Petitioner respectfully prays that this Court vacate its order denying the writ of certiorari and grant the writ of certiorari as prayed.

Dated: May 7, 1954.

Respectfully submitted,

GEORGE I. HAIGHT,

CARL HOPPE,

Attorneys for Petitioner.

CERTIFICATE OF COUNSEL.

Counsel hereby certifies that the foregoing petition for rehearing is presented in good faith and not for delay and that the petition is restricted to substantial grounds available to petitioner although not previously presented.

Dated: May 7, 1954.

CARL HOPPE,
Counsel for Petitioner.

MAY 13 1954

HAROLD B. WILLEY, Cle

IN THE

Supreme Court of the United States

OCTOBER TERM 1953

No. 623

FERROLINE CORPORATION,
Petitioner,

vs.

GENERAL ANILINE AND FILM CORPORATION,
Respondent.

RESPONSE TO PETITION FOR REHEARING OF ORDER DENYING WRIT OF CERTIORARI.

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The Scheffer Press, Inc.—ANdover 3-6850

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To the Honorable, the Chief Justice, and Associated Justices of the Supreme Court of the United States:

The petition for rehearing filed herein, far from suggesting any "substantial grounds available to petitioner although not previously presented" (Rule 33 (2) of this Court), is in fact a re-argument of contentions advanced in petitioner's original petition and brief to this Court. And although petitioner's request for stay of mandate, filed herein, stated that its petition for rehearing "will be confined to the intervening circumstances which plaintiff believes have a substantial and controlling effect on this cause,"—no intervening circumstances are even mentioned.

Petitioner first urges (Pet. for Rehearing, pp. 2-10) that the Court below, in construing the written agreements between it and Hamilton, should have imposed an

obligation of non-disclosure upon Ferroline of California. This identical contention formed a principal basis of the application for certiorari (Pet. for Certiorari, pp. 2-6, 17-20), was fully answered by respondent (Respondent's brief pp. 16-18), and was further treated in petitioner's reply (pp. 5-9).

None of the authorities now discussed by petitioner, dealing broadly with various incidents of licensor-licensee relationship, meet the grounds upon which the two courts below decided this issue contrary to petitioner's contentions; and petitioner makes no effort to distinguish the California decisions discussed by the Court of Appeals, or the authorities cited by this respondent in its brief in opposition to the issuance of the writ.

No new ground warranting further review by this Court is presented or suggested.

Petitioner mentions only briefly the two remaining grounds upon which the Court of Appeals separately predicated its decision against petitioner, namely (1) petitioner's failure to establish that defendant had any notice or knowledge of plaintiff's alleged rights; and (2) plaintiff's *laches*. Petitioner incorrectly claims that these issues do not separately support the decision below. The court below did not "concede" that an innocent party is ever liable to account in a trade secret case. On the contrary the Court of Appeals, in denying petitioner's petition for rehearing, overruled petitioner's contention, saying: "Not only do these cases not support the contention, but they tend to support our reasoning" (R. 975).

Plaintiff's gross *laches* bar its suit against defendant whether or not the California company was under obli-

gation to plaintiff not to disclose the process. The Illinois courts require diligence except as to claims against the fraudulent fiduciary itself, or third persons who are shown to be knowing participants in such fraud. Whatever relation California bore to plaintiff, defendant is not a fiduciary, and it has not been shown to have knowingly participated in any fraud.

In any case, petitioner's contentions as to the notice question reiterate arguments fully made in petitioner's original petition for certiorari (pp. 20-21), and reply brief (pp. 9-11). No new authorities are cited. Respondent's initial brief (pp. 19-22) answered plaintiff's unusual theory of liability through innocence, which is unsupported by any reported decision, and is contrary to the law of every jurisdiction, including New Jersey.

Petitioner's argument on *laches* (Pet. for Rehearing pp. 12-13) is likewise a repetition of the argument and authorities presented in its petition for certiorari (pp. 22-23), and reply brief (pp. 11-14), which were fully answered in defendant's original brief (pp. 22-26). No new ground for issuance of the writ is advanced in the entire petition.

CONCLUSION.

We respectfully suggest that the petition for rehearing filed herein plainly violates the requirement of Rule 33 (2) of this Court, that such a petition be addressed to substantial grounds available to a petitioner and not previously presented. The present petition makes no showing which would warrant the exercise of this Court's discretionary jurisdiction. Rather petitioner still seeks a review by this Court of issues peculiar to a single controversy. This is not the purpose of review by certiorari. *Magnum Import Co.* v. *Coty*, 262 U. S. 159, 163. The petition for rehearing should be denied.

Respectfully submitted,

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